The Journal of Social, Political and Economic Studies

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The Journal of SOCIAL, POLITICAL AND ECONOMIC STUDIES

Roger Pearson
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Dwight D. Murphey
Associate Editor

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The Deployment of Economic Assets within the Earth-Moon System

James H. Hughes[1]
Englewood, Colorado

The author argues in favor of the economic development of space by focussing attention on the commercial and military exploitation of the Moon, analogous to the development of the American frontier.

Key Words: Space, Earth, Moon, Space Shuttle, Single Stage To Orbit Vrhicles, Ballistic Missiles.

Space is beckoning us toward its expanding frontiers in scientific exploration, economic development and defense. Just as in the frontier days of the North American continent, where two distinct areas – the Eastern Seaboard of the United States to the Mississippi River Valley, and the West Coast of the United States – dominated the economic development of the American frontier, so the economic development of the earth and the moon will dominate the history of the Twenty-first Century.

The moon, 240,000 miles distant, dominates the night sky. The object of an intense competition between the U.S. and Soviet Union during the 1960s, the moon is once again becoming the focal point of a competition, this time in the economic development of space. Nearly thirty years have passed since Neil Armstrong became the first man to set foot on the moon on July 20, 1969. Those years have set the stage for a new energy and focus for its development.

Low-Cost Access to Space

The rapid development of low-cost access into space is creating a railroad for opening the space frontier, and setting the stage for the economic exploitation of the moon. This revolution of low-cost transportation into space, breaking the price barrier of $10,000 per pound for low earth orbit, has its origins in the Single Stage To Orbit

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program championed by Vice President Dan Quayle,[2] the reusable two-stage rockets being developed that emulate the economics of Single Stage To Orbit, the Pegasus and other rockets launched from aircraft, and the new expendable launch vehicles being developed that use simpler and faster launch procedures. These new rocket designs and processes for space launches, based on maximizing efficiency of rocket design and economics of operation, will cut the cost of space launches by large fractions, and eventually by orders of magnitude.[3] And as we start to measure space launch procedures in days rather than months, we will begin to see space open up for business.

In addition, the development of hypersonic vehicles, high atmospheric transit vehicles, and spaceplanes capable of touching the fringes of space from the earth and going into low earth orbit,[4] representing a new class of space vehicles that build on the approach to space we took under President Eisenhower which gave us the X-15 and prepared the way for the X-20[5] (later cancelled by Defense Secretary Robert McNamara), will extend the coming revolution in space transportation. These new vehicles will be far more economical in design and operation than our current generation of space launchers of "throw away" rockets and "expendable launch vehicles" that are derived from long-range ballistic missiles. Like a Single Stage To Orbit rocket, these new vehicles will offer improved maneuverability, flexibility of basing, ease of operation, and greater availability than our current space launchers. For example, a personal computer in a portable trailer made up the launch control facility for the DC-X testbed Single Stage To Orbit: its launch control center

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[2] Vice President Dan Quayle's briefing and support for Single Stage To Orbit are reproduced in: Daniel O. Graham, "Preface", *The Journal of Practical Applications in Space*, Volume IV, No. 4, Summer 1993, pp. 1-8. The Single Stage To Orbit is explained at length in the same issue in "The SSX - A True Spaceship" by Max Hunter, "Technology Readiness Review of the Space Ship Experimental (SSX) by Steve Hōeser, "Reliable Low Cost Space Transportation' by Jess Sponable, "The SSTO vs the NLV" by Robert C. Richardson lll and "Designing for Routine Space Access" hy William A. Gaubatz.

[3] A thorough, non-technical history of tbe Single Stage To Orbit and its potential is to be found in: G. Harry Stine, *Halfway to Anywhere*, M. Evans and Company, 1996.

[4] Richard Cook, [review1 "Spaceflight in the Era of Aerospace Planes." *The Journal of Practica1 Applications in Space*, Volume VI, No. 2, Winter 1995, pp. 193-194. See also: D. Ashford, "The Potential of Spaceplanes," *The Journal of Praetical Applications in Space*, Volume VI, No. 3, Spring 1995, pp. 213-265.

[5] Walter J. Boyne, *Beyond the Wild Blue*, St. Martin's Press, 1997, pp. 268-269.

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required just two people instead of the hundreds for Apollo 13. These new vehicles will not depend upon the launch schedule of an overbooked Space Shuttle or Cape Canaveral. They will be fully reusable vehicles, economical in operation, and possessing an operational robustness (engine out capability) more like an aircraft than a ballistic missile. They will not require extensive launch ranges near a seacoast for safety, but will be able to operate inland. Spaceports other than at Cape Canaveral and Vandenberg will become a reality in our lifetime. These new space vehicles will have flexibility in entering space and at a much lower cost compared to the Space Shuttle.

Economic Potential of the Space Industry

Space is a growing industry with satellite manufacturers, satellite receiver vendors, space-based information users, communication networks, and commercial space launchers. It is more than a multibillion dollar industry and international in scope. The booming growth in satellite communication, observation, and navigation services illustrates the economic potential of space. Our use of space today, dominated by the telecommunications industry and defense, will be dwarfed by other applications and industries that are just beginning to appear. Space tourism is just around the corner.[6] This vast potential will expand as man finds new roles in space.[7]

The rapid development of low-cost transportation into space will benefit our use of space for defense. We have used space for defense since the 1960s with reconnaissance and weather forecasting satellites, and more recently with military communications and GPS navigation satellites. Space also offers unparalleled advantages as a point of deployment for a defense against long-range ballistic missiles. We can overcome our total vulnerability to attack from long-range ballistic missiles by deploying interceptors and high energy lasers in space to destroy long-range ballistic missiles and their warheads.

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[6] T. F. Rogers, "Space Tourism, The Perspective from Japan and Some Implications for the United States" *The Journal of Practical Applications in Space*, Volume IV, No. 2, Winter 1995, pp. 109-149.

[7] Ivan Bekey, "The Coming Space Intustrial Revolution: An Optimist's Scenario", *Space Energy and Transportation*, Volume 1. No. 2, 1996, pp. 119-131.

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Military Significance

A ballistic missile defense that is based in space will be the most effective defense possible against long-range ballistic missiles.[8] It will have the capability to intercept ballistic missiles in their boost phase, which is the time when a ballistic missile is most vulnerable. A boosting missile has a large target profile which is easily visible under stress. A space-based missile defense will be able to intercept a ballistic missile over its whole trajectory in space. A space-based missile defense will also have global coverage and be predeployed. It will be on duty twenty-four hours a day. In addition, the long lines of sight and lack of atmospheric interference make it a prime location for high energy lasers, the fastest technology available to intercept and destroy ballistic missiles.

A space-based ballistic missile defense will bring the line of battle right to the theater of operation of the long-range ballistic missiles. We will increasingly look to space as the main theater of operation against them. Deployment of a ballistic missile defense in space will also strengthen our ability to protect our military and commercial satellites in space. It will help energize the commercial development of space by creating a demand for flexible, innovative, and low cost access into space.

A clear vision for the economic development of the earth-moon system will increase the effectiveness of the assets we use to develop space. Interplanetary probes, scientific and military observation satellites, and communication satellites will continue to extend into space. But for ventures like the International Space Station, rebuilt Space Shuttle, and other plans for the development of space, we need a clear vision as to our priorities. It will cost billions of dollars to develop space. How we spend those billions will determine our return.

What should be our strategy for developing space? Should we continue with an approach of business as usual, building a series of satellite constellations in low and medium earth orbit and launching

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[8] Space as the new theater of war is argued by G. Harry Stine, in *Confrontation in Space*, Prentice-Hall, 1981, pp. 1-10. Space as a base for ballistic missile defense is explained in Lt. Gen. Daniel O. Graham, in *High Frontier*, The Heritage Fonndation, 1982, p. 18. The use of space for ballistic missile defense is also presented by Robert Jastrow in *How To Make Nuclear Wars Obsolete*, Little, Brown and Company 1985, pp. 40-43.

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unmanned probes? But if we continue as we have been doing we will fail to recognize the opportunities we have before us. It will continue the monopolies that have propped up the artificial cost barrier to space. It will perpetuate the overregulation and bureaucracy that could strangle our development of space. It would not permit a free market approach to space, nor will it protect the interest of government in developing space for defense. Will the International Space Station and Space Shuttle open up the economic potential of space? The International Space Station and Space Shuttle, often thought of as "ultimate" goals or achievements, are only stepping stones. Where shall we find our vision for the economic development of space? Shall we turn to aerospace giants like Boeing or Lockheed Martin? But the interests of large corporations are to preserve their market dominance and avoid open competition. The industrial giants of today will not necessarily survive as giants for another fifty years. We need boldness and innovation to open up the frontier of space, not the constraints of accounting and regulation. We need to free and equip the hands of progress.

Our vision for developing space will come from the military use of space, and from our history of opening the American frontier, which is founded in the free enterprise system and property rights of the individual. In classical military strategy, positions of higher altitude – higher ground – are sought. The military use of space calls for obtaining progressively higher points of advantage for defense, and for the maneuver of forces. Control of higher ground - mountainous or hilly terrain – is generally sought in ground operations. In the 20th century, control of the air – a higher ground than any hill or mountain - is now viewed as a practical necessity for ground operations. For which reason, in the 20th century we have developed air forces to control the higher ground. In the 1991 Persian Gulf War, the Air War under General Horner preceded and supported General Schwartzkopf's ground campaign. The Gulf War was also the first war to extensively use satellites in space.[9] America took the high ground of air and space before attacking on land. Whether from the perspective of an artillery officer, infantry

[9] John Hutt Cuuningham, "The Role of Satellites in the Gulf War," *The Journal of Practical Applications in Space*, Volume 2, No. 3, Spring 1991, pp. 43-69.

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commander, or air squadron leader, the military development of space calls for such a policy.

Significance of the Moon

The moon stands at the highest point of the earth-moon system, dominating it. Development of the moon for defense would support U.S. defense of geosynchronous (22,300 miles above the earth) and super synchronous orbital assets. In addition to its altitude, the moon offers a large resource base for military use of space. Economic development of the moon will make available an independent center of economic supply for space defense.

Technically, in terms of the gravity well of the earth-moon system, the lunar libration points (L1-L5 where there is close gravitational equilibrium between the earth and moon) are at the top of the earth-moon system.[10] The lunar libration points offer a greater potential military advantage than the moon, especially for the interrogation and interception of space vehicles with kinetic energy weapons. But their potential is limited by supply and logistics. The lunar libration points may be thought of as frontier outposts to be taken and held to protect the growth of economic activity within the earth-moon system. The military use of the moon offers far greater potential. For it will be from the moon that we can supply and sustain military positions at the lunar libration points.

During the 1800s, two distinct areas – the Eastern Seaboard to the Mississippi River Valley, and the West Coast – dominated our economic development of the frontier. The development of these two distinct regions resulted in our building a transportation and communication system that spanned the North America continent from East to West. The Pony Express, telegraph, and railroad, going beyond our natural trade routes found in the great river valleys of the Ohio and Mississippi, forged new connections tying us together as a country. The golden spike joining the Union Pacific to the Central Pacific Railroad in 1869 brought together new market forces, expanded the flow of trade with the Orient, and opened up the

[10] For a discussion of the military valne of the lunar libratiou points see John M. Collins, *Military Space Forces*, Pergamon-Brassey, 1989, pp. 20, 25. & 47. Additional discussion of the gravity well and lunar libration points is to be found in G. Harry Stine, *Confrontation in Space*, Prentice-Hall, 1981, pp. 56-62.

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Midwest and Great American Desert as frontiers for settlement. Immigrants from the Old World found their homes in the New World.[11]

Likewise, any power developing the moon first, rather than looking to the evolutionary deployment of satellites deeper into space, will put itself in a far stronger position to economically and militarily dominate the earth-moon system. While space between the earth-moon system does not contain the natural resources of the Great American Desert – broadly defined as that vast region from west of the Mississippi River to the West Coast where teeming millions now live – the advantages to be gained from developing space between the earth and the moon, which could hold solar power satellites transmitting power to the earth, hotels for tourism, space stations for industrial processes as well as our telecommunications and navigation network satellites of today, will be more readily obtained through trade between the earth and the moon than by any other means.

The moon's gravity, at one sixth of the earth's, will enhance efforts to economically develop the earth-moon system. In the not so distant future, the transmission to earth of energy collected from solar power satellites, the development of a fusion power economy, mining and manufacturing on the moon, and tourism in space will rival and exceed the space telecommunications industry in economic impact. These new industries will either be based on, or connected to the moon. Others have noted the advantages of using the moon as a staging area for the construction of large solar power satellites, and for the launching of interplanetary expeditions.[12] The initial investment for developing the moon will be more than repaid in long-term economic returns. The production of energy, special goods and industrial materials from the economic development of the moon will find its largest market on the earth, and commercial activity on

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[11] An analogy for the economic development of space is presented in G. Harry Stine, *Confrontation in Space*, Prentice-Hall, 1981. pp. 54-55.

[12] See: Philip Chapman, "Reviving Spaceflight," *The Journal of Practical Applications in Space*, Volume VI, No. 1, Fall 1994, pp. 1-54; David G. Stephenson, "There's Gold in Them Thar Lunar Highlands," *The Journal of Practical Applications in Space*. Volume IV, No. 2. Winter 1993, pp. 137-143; and John P. Wetzel and Stewart W. Johnson, "Engineering and Construction Challenges for a Lunar Solar Power System and Base," in the same issue, pp. 145-155.

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the moon will be destined for markets on earth. The moon's lesser gravity and lack of atmosphere intrinsically favor the flow of trade from the moon to the earth, rather than from the earth to the moon.

The moon is an economic and geographic frontier waiting for development. It is a resource ripe for development in scientific observation, energy, mining, and industrial processes. The key to our strategy for developing space will be found in developing the moon as an independent center of economic activity where private property rights are respected and protected. By focusing economic development on the moon, we will be writing the history and storybook for developing civilization. Our future lies in space. It is our manifest destiny.

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Why International Theater Missile Defense Is Still A Challenge Rather Than A Reality

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A number of factors which have been alleged to influence the attitude of Governments towards investment in Missile Defense are reviewed. These include the relationshIp to the original Strategic Defense Initiative, the absence of an agreed threat, desired reductions in defense spending, uncertainty in the capabilities of projected defenses and the influence of the ABM Treaty. Recommendations are made for actions which will have to be taken before allies are likely to overcome their reluctance to get more actively involved in Missile Defense activities.

Key Words: Theater Missile Defense (TMD), ABM Treaty, Strategic MIssile Defense (SDI), Cold War, Helsinki Agreement

A question that merits thoughtful attention is why international participation in Theater Missile Defense (TMD) remains such a contentious subject. No nations other than America and Israel have yet made missile defense a high priority issue, nor have they been prepared to invest substantially in the acquisition of equipment. Yet despite this reluctance to acknowledge the growing missile threat, some of America's allies continue to support the United States in peacekeeping and crisis reduction activities by deploying troops to trouble spots all over the World. It seems odd that nations are willing to expose their forces to possible hostile action, without making adequate provision for effective missile defense.

There has been so much publicity given to the extensive proliferation of missile and unconventional warhead technology[1,2,3,4,5] that no Government could now use the excuse that it was unaware of the ever increasing risk. One possible explanation is that allies believe that the U.S will provide TMD for all participants in a multinational force, even though, as yet, the U.S. is still unable to provide any effective protection for it's own forces.[6] Other explanations that have been advanced to explain allied reluctance to become heavily involved in TMD include: the lack of full agreement on what constitutes the

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threat, precisely what could be accomplished by an active defense, or at what financial cost. None of these issues alone would appear to justify the danger to which troops are now being exposed, and to which some European, Middle Eastern and Asian populations are becoming more at risk. This paper examines in some detail these and other issues, with the objective of identifying what could be done to foster more real interest internationally in TMD programs.

The Relationship To SDI

The Strategic Defense Initiative, SDI, introduced by President Reagan in 1983 proved to be highly contentious internationally, and did not even succeed in getting full bipartisan support within America.[7] Nonetheless, viewed from a historical perspective, there is clear evidence to support the claim that SDI contributed to the fall of the Soviet Union, and in so doing achieved one of it's primary objectives; that of reducing the likelihood of a major nuclear exchange. Many leading members of the former Soviet Government have since admitted the influence the SDI program played in determining their reactions at that time, leaving little serious doubt about it's role [8,9,10]. This has led many to believe that with the end of the Cold War, the requirement for missile defense has significantly diminished. A belief that equates with the continued importance attached to the ABM Treaty, which was established in 1972, specifically to keep the signatory nations vulnerable to missile attack.

The irony of the proposition that the need for missile defense was removed with the ending of the Cold War is that the fall of the Soviet Union has been quickly followed by a large increase in proliferation of missile and unconventional warhead technology. In terms of offensive missile capabilities, Third World can in no way be equated with third rate. Tens of nations now have the capability of delivering warheads over distances of hundreds of miles. Without an effective missile defense, America and it's allies would have neither the means of dissuading others against investing in missile technology, nor the capability of defending vital assets should diplomatic efforts fail to avoid a conflict. Offensive systems that are opposed by no effective defense will inevitably remain attractive to nations seeking regional dominance. This concept was the basis for the introduction of counterproliferation, a policy that extended the diplomatic efforts of non-proliferation to include military means to counter offensive

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missiles should hostilities break out. Yet, with the exception of the U.S. and Israel, counterproliferation has been virtually ignored.[11] For most governments the relationship of missile defense with the unpopular, and supposedly unattainable, concept of Strategic Missile Defense, appears to have diminished interest in the programs.

The Absence of an Agreed Threat

It is clear that governments would not even consider spending billions of dollars to counter threats equipped just with high explosive warheads. The damage such systems could achieve would not justify the investment. Chemical, Biological or Nuclear warheads on the other hand, besides being capable of inflicting severe casualties, fall into the category of terror weapons, and the mere threat of their use could paralyse a population. This was clearly illustrated by the Iraqi Scud attacks on Israel during the Gulf War, and the lesson will have been learned by many others. Now it is acknowledged that many nations possess or are actively engaged in acquiring these offensive capabilities, the burning questions that remain unanswered are; "How likely is it that warheads of mass destruction will be used?" "Would the threat of like retaliation deter such an attack?" And if it did not, "Would it be better to intercept the attacking warheads, rather than exact retribution?" A significant lesson should have been learned during the Gulf War with Iraq, and in the several crises that have succeeded it. Namely that we can never be sure what capabilities an enemy might possess, or what will result in them being utilized. The only certainty, in this highly uncertain environment, is that proliferation is an established fact, and therefore the potential threats will inevitably grow with time.

All the existing formal and informal international restrictions to proliferation may delay, but they cannot preclude the inevitable. At some time in the future our military forces, and eventually population centers, are likely be faced by missiles carrying warheads of mass destruction. As matters now stand, if such an attack does occur, the only response will be to retaliate in kind, assuming of course that the attacked ally has an appropriate capability. In the case of NATO, if an attacker chose a country other than France, the UK or the US, which of these would be prepared to launch a retaliatory nuclear strike on behalf of it's ally ? For too long most NATO and other allies have sheltered under the American umbrella of extended

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deterrence, and have not yet recognized the profound geo-political changes which have followed the fall of the Soviet Union.

The revelations of the UN Inspection teams that have been investigating Iraqi capabilities, should have induced several governments to ponder what might have occurred during the Gulf War, had Israel not launched a successful attack against the Iraqi nascent nuclear facilities in the early 1980's. The basic question with regard to missile defense needs to be rephrased from, "Can we afford a TMD?" to, "Can we afford not to have a TMD?" There is no longer any justification for accepting that tens of warheads could be launched against American or allied troops in a crisis area, or against allied centers of population, without having the means to defend against such threats.

Reductions in Defense Spending

Many Governments are seeking additional peace dividends that were fully expected to follow the end of the Cold War. Prior to the fall of the Soviet Union, it seemed logical that the ending of the Superpower standoff would lead to a drastic reduction in the need for new, improved armaments. Programs and policies had been dominated for so long by the polarization into the two superpower groups, that little thought was given to the dramatic change in the balance of world power that would follow the end of the Cold War. Few, if any, predicted the rapid proliferation of missile and warhead technology, and how this would transform the stability of international security. Even now proliferation is viewed in many quarters as leading to an increased risk, rather than a direct threat that has to be countered.

The prolonged and expensive research programs into missile defense conducted by the U.S. have shown that it should be possible to counter attacks of tens of relatively unsophisticated missiles, such as could be mounted by nations other than Russia. It is still well beyond the capabilities of any envisaged defense to negate an attack of thousands of missiles, as was considered as one of the worst scenarios if the Cold War led to open hostilities. It is ironic that at the very time that these research programs are demonstrating the capability of negating the level of threat that now exists, or is likely to develop from emerging nations over the next decade, America's principal allies are seeking to cut defense expenditure by ignoring the

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missile threat, and thus avoiding any new commitments. There have even been efforts within Congress to further reduce the American defense budget, although to date these have been successfully rebutted. Nonetheless several items which are of doubtful benefit to the military have been retained within Defense appropriations, such as refusal to close bases which are surplus to requirements, thereby effectively lowering the resources available for TMD and other systems.

One of the solutions to the problem of how to develop and field new systems in an environment of limited resources is through international cooperation. Although international programs are alleged to cost more overall, the sharing of that cost reduces the burden on individual nations. Unfortunately past experience has also demonstrated that national rules, governing technology transfer and equipment acquisition, have acted as a significant barrier to effective cooperative development. All nations involved would have to make significant changes to their acquisition procedures to overcome these problems, and until those changes are implemented coproduction rather than co-development would appear to be a better way to proceed. However as noted earlier, with the exception of Israel and America, no nation has yet acknowledged that the missile threat justifies significant investment in TMD, leaving little opportunity for arranging any cooperative ventures.

MEADS (Medium Extended Altitude Defense System), provides the sole exception to this; it is a collaborative development effort between Germany, Italy and America. Despite the fact that the system is designed to provide forward defense against cruise and ballistic missiles, Germany has consistently stated that MEADS is a merely a replacement for Hawk, an anti-aircraft system, thereby avoiding opening a debate on the value of missile defense. Furthermore the funding of the program, for which America contributes over 60 %, has been severely questioned in Congress and within DOD, at each yearly renewal. This discussion on future funding continues as this article is written, inevitably sending quite the wrong signals to allies regarding the manner in which collaboration is viewed within the U.S.[12] These several factors have combined to provide an environment internationally in which in most allied countries missile defense has been relegated to study status only. Britain[13] and Japan[14] independently initiated their own financed

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TMD studies after participating in American supported activities. Neither of these studies has yet led to any major commitment to invest in TMD hardware. While it is of course difficult to assess the underlying reasons for the allocation of the priorities of any Government, it seems clear that avoidance of new defense spending is a significant contributor in most cases.

The Capabilities of Defenses

Considerable uncertainty remains in some Government and Military circles regarding the effectiveness of missile defenses which could be deployed in the foreseeable future. There are many factors which contribute to this uncertainty, some historical, some technical, and some resulting from over zealous claims which have been made during the American Missile Defense development programs conducted under SDIO and later BMDO.

Early attempts in the 1960s and '70s to achieve missile defense were thwarted by an inability to guide a defensive missile close enough to an attacking missile to incapacitate it with a high explosive warhead. The initial systems deployed by America and the Soviet Union relied on nuclear tipped interceptors to destroy incoming missiles. It is often overlooked in the West that Russia still maintains a system around Moscow, using this technology. The generation of multiple nuclear detonations above one's own cities represented a "defense" of last resort, and the corresponding American system was dismantled soon after its initial fielding. This contributed towards a belief that missiles could not be intercepted successfully, a belief that was reinforced by the signing of the ABM Treaty, which formalized the position that the signatory nations would remain vulnerable to missile attack.

The destructive forces generated by striking a missile with an opposing missile are obviously much greater than those resulting from fragments of an exploding warhead. Such a system also dispenses with the difficult problem of fuzing, necessary to ensure that the defensive warhead explodes at the correct location to inflict critical damage to the attacking warhead. When dealing with attacking warheads of mass destruction, lethality becomes paramount. Research on the capabilities needed to accomplish these objectives has yielded impressive results, and tests have shown that hit-to-kill can now be achieved for interceptions at altitudes up to about 20 Kft. These

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results were obtained with a missile that will be incorporated into an upgraded Patriot system, Pac 3, which will enter Service around the turn of the century. The technology incorporated in the Pac 3 missile has been in development since the 70s and represents an investment in excess of $1 B. By the end of 1997 two successful preliminary integration test firings had been completed. These verified the interfaces of the missile with the existing Patriot system and confirmed launch and flight functions. No intercept was attempted on either of these tests. At the time of writing the first attempted interception test which was due in February 1998 remains on hold. Another program called Navy Area TBMD, based on an improved Standard Missile (Block IVA) fired from an Aegis cruiser, is due to have a first unit equipped in 2001. The Navy has adopted a different approach than the Army, by continuing to rely on an exploding warhead to destroy the incoming missiles, but have modified the missile seeker and fuzing to improve the lethality. A follow-on program called Navy Theater Wide, will utilize yet a further adapted Standard Missile (Block IVA + Aegis LEAP), with an added third-stage motor and a light weight exo-atmospheric kill vehicle. This LEAP is another form of hit-to-kill, in which the explosive free warhead is guided onto the attacking warhead to destroy it kinetically.[15]

The Navy exo-atmospheric interceptor has a land based parallel in THAAD, Theater High Altitude Area Defense system. The missile component of THAAD has experienced several development test firing failures, resulting in significant delays to the predicted fielding date. It is now unlikely to be available before 2006.

The systems to be deployed first, Pac 3 and Naval Area TBMD, will be capable of defending limited areas, sometimes referred to as point defense, such as ports or airfields against relatively unsophisticated ballistic and cruise missile attacks. But until competent upper tier interceptors such as THAAD and/or the Naval Theater Wide system, become available, and are fully integrated into a single family of systems, the defense will remain fragile, and incapable of providing population defense. On current planning the Battle Management system will not have access to a single integrated air picture until about 2010. This integration of the separate systems into a family of systems represents an essential step towards the creation of a highly effective defense. On current planning the

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availability of this capability will be the final element to come on stream.

Mention was made earlier of another development program to provide a tactically mobile lower tier system called MEADS. It is being codeveloped between Germany, Italy and America, essentially as a replacement for Hawk in Europe, that could provide forward area defense for troops against air breathing and missile attacks. America is paying over half the cost of the project, which has been the subject of repeated funding attacks in Congress and in DOD. Its future is still uncertain, even though a further $40 M has been allocated for FY 98. As things currently stand the MEADS program is likely to remain uncertain year to year with the real crunch coming when it is in competition with THAAD and Naval TMD for Engineering and Manufacturing Development, and production funding.

Less attention has been focussed in this brief technical review on the other components of the system, such as sensors, launchers, and the Battle management (BMC3I). This is not because they are any less important, but because, with the exception of the BMC3I, their development appears to be proceeding satisfactorily. Until recently little has been reported on the progress of the Battle Management system that integrates all the components into a single family of systems, so that they can operate in harmony. It was reported recently however that a demonstration will be mounted in 2002 of the air and missile defense technologies integrated into a unified system. It was further noted that a successful demonstration should lead to the fielding of a coherently linked system by 2010. As noted above, without such a capability linking all the separate military systems with an integrated air picture, the U.S forces will not have a fully robust defense.

The yet more complex topic of interoperability and integration of international systems is one that not unnaturally has received little attention, since the allies have yet to commit to an involvement in TMD. The longer the allies procrastinate, the harder it will be for them to influence the form of international interoperability that will eventually have to be introduced, if multinational forces are to be capable of operating cooperatively.

It cannot have escaped the notice of allies, that America has expended more than $50 B, since 1983 on missile defense research,

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yet no systems have yet been deployed, and it is likely to take a further 13 years before a fully capable TMD system becomes available. This is a clear indication that the task was much harder politically and technically, as well as more costly, than was at first envisaged. Although criticism could be made of the frequent changes in priority to which the American program has been subjected by successive Administrations, these have only exacerbated what was an underestimation of the complexity of the whole task. These difficulties will undoubtedly have discouraged allied interest, and are likely to continue to do so until the problems are seen to be overcome.

With hindsight it can be seen that the ending of the Cold War also marked a transition in the U.S. SDI research into what could have been an effective TMD acquisition program. One which would have been capable of countering the more limited attacks of the emerging nations. Instead, the switching of resources and priorities between National and Theater missile defense has adversely affected both. This mixture of misguided policies, resulting mostly from lack of agreement between the Legislative and the Executive branches of the US Government, has significantly slowed the initial fielding of a limited defensive capability. With hindsight it is clear that with a more consistent approach, the $50 B invested across the broad range of missile defense activities, could by now have produced the elements of an operative TMD. It would also have had a far less negative effect on allies, who would have seen positive results at a lower cost.

The ABM Treaty

The ABM Treaty, signed in 1972 between the U.S. and the Former Soviet Union (FSU), was designed specifically to inhibit the size, format, location and capability of an NMD. While the Treaty remains in force, the parties are severely restricted in the quality of a strategic defense that either can deploy.

When the Treaty was signed the U.S. and the FSU dominated nuclear weapon and BM capabilities. Deterrence, through Mutual Assured Destruction, was the accepted means of avoiding armed conflict between the two power blocks. Ensuring vulnerability to missile attack was at that time viewed as a means of preserving the effectiveness of deterrence. As noted earlier, since the fall of the

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FSU, proliferation of missile and warhead technology has blossomed. Many countries that would previously have been dismissed as minor risks, are now capable of mounting genuine threats to allies and to U.S. interests around the world, if not yet to the U.S. itself. It is by no means certain that all of these newly empowered nations are susceptible to deterrence. Furthermore as proliferation increases so does the likelihood that a subnational, terrorist group will acquire the ability to inflict considerable havoc. There is ample evidence that such groups are unaffected, if not positively encouraged, by the threat of overwhelming retaliation.

Although the ABM Treaty was designed specifically to limit the capabilities of Strategic defenses, while it remains in force it is capable of interpretations that would inhibit the deployment of any effective population defense.[16] This results from restrictions that inhibit early cueing of interceptors from space based sensors, and acceleration limits on interceptor missiles. Both of these restrictions could make it difficult, if not impossible, to intercept attacking missiles well away from their target area. The achievement of population defense against warheads of mass destruction would only be achievable if interceptions are attempted early in the flight path of the attacking missile. At the time the Treaty was signed, some observers noted that threatening to kill populations was permitted, but threatening to kill missiles was not. It appears that the same philosophy still applies in some quarters.

The demise of the FSU provided an opportunity to alter or terminate the Treaty, on the grounds that one of the two parties to it no longer existed. This was not done at the time, and since then retention of the ABM Treaty has remained a basic tenet of U.S. security policy. This, despite the fact that we believe the Treaty's retention is incompatible with the deployment of a fully effective Theater missile defense. Agreements announced at the Helsinki Summit in March 1997 between Presidents Clinton and Yeltsin provide a clear illustration of how the Treaty can be used to restrict projected TMD capabilities, through limitations that would apply to the capability of the upper tier interceptors and to the full use of modern sensors.[17] At the same summit the two leaders agreed to another fundamental change to the Treaty, proposing the addition of Belaurus, Kazakhstan and Ukraine as full participants, on the grounds that some sites associated with the old Soviet defenses lie within their

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borders. If this proposal of adding the newly independent countries is formally accepted by the Senate, it will make any further changes in Treaty obligations much more difficult to achieve, because modifications will require the agreement of 5 rather than 2 nations. This could make it impossible for the U.S. to deploy the most effective TMD. The clear impression given by these actions is that the present U.S. President is far more concerned about retaining a Treaty which specifically restricts missile defenses, than in taking actions that will lead to the fielding of an effective system.

Other non-signatory allies also continue to view the Treaty as important. The distinctive aura it acquired as the first major arms agreement between the two then Superpowers, coupled with the fact that it also was seen as preventing another arms race, appear to have elevated the Treaty to a special status. Despite the obvious proliferation that is now in progress, opponents of missile defense continue to suggest that the acquisition of defensive capabilities, rather than provide protection, will in fact encourage others to intensify and refine their own offensive systems. This returns to the theme of an arms race which the existence of the Treaty is considered to avoid. In terms of wishing to retain and even broaden the Treaty, it appears that the present U.S. Executive has the support of the governments of most allies.

The Way Ahead

The review of the issues which are assessed as having influenced attitudes towards international missile defense, indicates that advocates of the concept have made remarkably little headway over the past 14 years. The major geo-political and other changes which have occurred since the fall of the FSU should have reinforced the case for action. Many more nations, that America and it's allies consider to be unstable, and/or potential adversaries, now possess missile and warhead capabilities. This coupled with the growth of nationalism has led to far more instabilities around the globe. Although the large U.S. investment in BMD technologies has not produced the expected capabilities, in terms of being able to counter a massive attack of thousands of missiles, it has produced significant results. There is now every expectation that systems could be deployed that would successfully intercept the smaller raids which nations other than Russia might threaten to use. What has also

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become clear is that even the U.S. cannot afford to tackle the full task alone, and certainly cannot afford to provide effective protection for all it's allies. If the allies wish to protect their homelands, and their troops in out of area operations, they are going to have to invest in Missile Defense.

The changes described are extremely unusual in historical terms. The threat has magnified significantly in breadth and uncertainty, but diminished in quality and quantity to a level that enables each individual threat to be countered by newly developed defensive technologies. Yet despite this unanticipated opportunity to acquire defensive capabilities that would nullify the present and growing missile threat, most allied governments continue to give the subject scant attention.

For a short time following the Gulf War, it seemed that Saddam Hussain would accomplish the task that had eluded so many advocates of missile defense. His Scud attacks against Israel and Saudi Arabia made the topic front page news, even though earlier use of missiles, and even chemical warheads, by both Iran and Iraq had gone relatively unnoticed. The public, in 1991, perhaps for the first time since the V2 attacks in 1944/5, were made acutely aware of the dangers of enemy missiles, now to include the risk of chemical and biological agents. A way has to be found to reawaken that interest, without waiting for the next rogue state to make it for us by claiming substantial casualties in an unopposed raid.

The technical and military communities in allied countries that understand the situation have to make extra efforts to convince appropriate Senior Policy Makers in each nation of the heightened requirement. The case has to be made on cost effectiveness grounds, with emphasis on the appalling cost of failure. A strong case should be made initially for the provision of missile defense for troops sent to out-of area crises. There can be no justification for sending them without the ability to defend themselves against threats which clearly exist, and are increasing.

The education process has to include the incompatibility of retention of the ABM Treaty as it now exists with the deployment of effective defenses. This truism has to be repeated at every opportunity. The Treaty may once have served a positive purpose, but the substantial changes throughout the world in technology and power structure, which have developed since the Treaty's institution, has

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made it an anachronism. To achieve effective defense against warheads of mass destruction, it will be necessary to destroy them as early in flight as possible. The ability to achieve this with ground or sea based systems, becomes marginal within the current restrictions of the Treaty.

Through it's investment in SDI/BMD America has acquired a substantial lead in the technologies which support missile defense. All it's allies therefore look towards America to assess what can be accomplished in this field. They now see a number of promising programs while recognizing that it will be impossible for America to afford them all in the presently planned time scale. There is a strong case that can be made for each of the individual programs; Pac 3, THAAD, MEADS, Naval TMD, NMD, but without substantial funding increases, priorities will have to be allocated. Advocates have to be far more realistic in claims for what could be deployed, in what time scale, and at what cost. There can be no doubt that over-zealous predictions by US Administrations have undermined the credibility of missile defense, almost to a level from which it will be difficult to recover.

Although U.S. authorities have made sterling efforts for over 12 years to encourage allies to get involved in BMD activities, with the sole exception of MEADS, there has never been a clear indication of how an ally could participate. There has been no clear policy, so allies have consistently received mixed signals. For example, even the only ongoing international effort, MEADS, has been subjected annually to threats of cancellation by Congress and DOD, in an attempt to release funding for other missile defense activities. Although genuine international cooperation could be the answer to some of the funding problems, unfortunately the changes that would be required in US and allied national regulations to enable this to occur, seem to be too substantial for this to be achievable for the programs that are already well underway. It is particularly ironic that MEADS is now being viewed in Europe as the way in which future collaborative efforts should be structured, while in the U.S., which initiated the program, it enjoys limited support and remains in danger of cancellation.

There are still opportunities for international cooperation through interoperability and joint use of some capabilities, such as space based sensing, but only after the allies have accepted the importance of TMD. The plain truth is that with the sole exception

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of Israel, no other nation's leaders have made BMD a high priority item. It is up to advocates in each country to make the case for missile defense and to raise the awareness, throughout all levels of society. For too long it has been assumed that either American persistence would induce others to participate, or that America would go still further and provide defense in crisis situations. Our analysis indicates that America will not be in a position to defend itself or it's own forces adequately for at least another decade, so other alternatives have to be examined. Continuing down the present path could be a recipe for disaster.

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The Mafia Threat to Freedom in Russia

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The author examines the economic situation in Russia, with special reference to the Mafia-type terrorist organizations that have flourished and which are corrupting government officials as efforts are made to transfer economic assets from the Government to private ownership.

Key Words: Russian economy, extortion, mafia, economic crime

Russia has no semblance of democracy and is far from achieving real market reform. Russia's present rulers are hardly better than the Communists. A stable and tight oligarchy of 150-200 people is deciding the fate of the nation. For the past 10 years, leaders have robbed their own people of national wealth, pocketing billions of dollars, impoverishing millions and possibly leading to the death of thousands. Russia's economic chaos is the result of nearly criminal reforms that have created a new class of mafia capitalists.

Alexander Solzhenitsyn[1]

Since the dissolution of the Soviet Union on December 31, 1991, the struggle for power between various groups within the disintegrated state has yet to produce a visible and dominant leader. Boris Yeltsin claims to be the liberator of the Russian Federation and mediator of the other fifteen republics, guiding them towards democratic and market reforms. However, those who were once members of the political elite, the former Communists, still hold a majority of the political and economic authority in the former USSR. During the 1993 parliamentary elections, the Communists and nationalists gained a large share of the State Duma's seats, and Communist Party leader Gennadii Zyuganov and the Liberal Democratic Party leader Zhirnovsky both grew more popular and influential. Zhirnovsky's faction received 23 percent of the votes.[2] In order to avoid a Communist victory in the 1996 presidential elections, seven prominent bankers provided approximately three

[1] Alexandre Konanykhine and Elena Gratcheva, "Mafiocracy in Russia" (1996) URL: http://www.konanykhine.com/mafiocracy.html: 1.

[2] Stephen Handleman, *Comrade Criminal* (New Haven: Yale University Press, 1995), 307.

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million dollars as well as most of the media's attention to Yeltsin's campaign. These bankers feared that a return to power of the Communists would eliminate privatization.[3] Following his electoral victory, and in gratitude for their assistance, President Yeltsin appointed these seven bankers to senior cabinet positions.

Unfortunately the close relationship between organized crime and bureaucratic corruption is undermining the trend toward political and economic privatization in Russia today. As the bonds between organized crime and governmental corruption continue to strengthen, a return to totalitarian rule becomes a possible outcome. This paper seeks to expose organized crime's relationship to the totalitarian model. In addition, it discusses the current state of the Russian economy, and how crime-induced instability is impeding democracy. Finally, it identifies the three different paths Russia could possibly pursue, dependent on the relative strength of the relationship between government corruption and organized crime, and the ability of non-corrupt reformers to combat these two forces.

When Communist Party officials realized that the Soviet Union was crumbling in the early 1990s, those who managed or had access to the state's financial resources privately transferred substantial state assets into their own private accounts. Those same criminal bureaucrats, often retaining close ties to members of the state bureaucracy, are consequently once again controlling and monopolizing the Russian economy by virtue of their new status as major actors amongst "Russia's most influential bank managers, company directors, and heads of commercial enterprises."[4] Dr. Louise Shelley testifies that the new type of thief within the Russian Federation has "one foot in the old black market world, the old criminal world, and another foot in the official world, the world of politics and the old structure of the party."[5]

Today, many purportedly pro-democracy officials are adding to the level of corruption. Government officials frequently charge rival

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[3] "The Men for the Job," *The Economist* (12 July 1997)": 2.

[4] Commission on Security and Cooperation in Europe, "Restoration Watch #2: Russia's Organized Crime," *Decision Brief No. 94-D 39*, (Washington, D.C.: The Center for Security Policy, 1994), 13.

[5] Ibid.

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officials in government or in rival businesses with being guilty of corruption or of cooperating with organized criminals in order to oust them from their positions or diminish their powers. The Communist Party and Russian nationalist parties recently charged Anatolii Chubais, one of Yeltsin's advisors and supporters of democratic reforms, with corruption, claiming that Chubais accepted a $90,000 payment from the publisher of a book, which has not yet been published, detailing the history of Russia's privatization. In order to disrupt the reform movement and further undermine Yeltsin's government, these two competing parties joined together to push for Chubais' dismissal. On November 20, 1997, Yeltsin succumbed to their pressure and dismissed Chubais as finance minister, although he allowed Chubais to retain his post as first deputy prime minister.[6]

Corrupt officials and their illicit activities had previously plagued the Communist regime. These officials were able to gain enormous wealth while most citizens suffered economically during the rapid transition from a command economy to a market economy. After the fall of the Soviet Union, the Committee for State Security (KGB) was downsized and cut about 100,000 agents, who then had to look for jobs elsewhere. Since unemployment was high and the possibilities of finding an attractive job to enable them to pay their bills were grim, many of the newly unemployed agents went to work for "organized crime syndicates who needed their special knowledge of financial conduits abroad and their control of clandestine agents all over the world."[7]

Facing poverty, high unemployment, and the slow pace of the government's economic reforms, vast numbers of Russians have resorted to crime in order to improve their financial situation and gain political prestige. Corruption abounds in both the state institutions and the new privately-owned business enterprises, with many high level officials and business people having links to members of the Russian "Mafia". Most of the major criminals in Russia today are people who once held senior level positions in the Communist Party or who had close ties to the *nomenklatura*. Corruption and organized crime commonly operate hand-in-hand. Where organized

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[6] Radio Free Europe/Radio Liberty, "RFE/RL Newsline, No. 164, Part I" (20 November 1997): 1.

[7] House, *Report on Global Organized Crime*, 104th Cong., 2d sess., 31 January 1996, 23.

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crime prospers there are always criminals seeking to corrupt officials. Efforts to suppress organized crime need to combat official corruption to be successful.[8]

Organized crime within the former Soviet Union is by no means under the control of a single group. There is no single "godfather" who dominates organized crime throughout the entire FSU. As an expert on international security, Phil Williams notes that there are "major splits within the criminal organizations ...a conglomeration of different groups interacting in a different way," which, of course makes the problem difficult to counter.[9] Russia alone is believed to be home to several hundred different mob bosses. Arnaud de Borchgrave, the Director of the Global Organized Crime Project from the CSIS, testified before the House Committee on International Relations on the extent of Russian organized crime. Analyzing both FBI and MVD statistics, his group estimated that within in Russia there are approximately 6,000 criminal groups which employ around 100,000 full-time criminals and as many as three million part-time gangsters.[10] People associated with Russian organized crime come from every level of society, including law enforcement officials, bureaucrats, military officers, businessmen, former convicts, and even teenagers. Crimes associated with typical organized groups include drug trafficking, extortion, money laundering, all types of fraud, trade smuggling, loan-sharking, auto theft, and murder. [11]

Organized criminal groups within the FSU can be divided into four different groups: *Vorovskoy Mi* or "thieves world,"[12] former Communist party elites, gangs or "authorities," and ethnic clans. The *Vorovskoy Mi* follow a strict code of law made up of eighteen different rules referred to as "The Thieves' Code." These criminals spent many years in prison during the Soviet Union, and the Soviet regime considered them outcasts. While in prison, the mob bosses

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[8] Andrew L.A. Goodman, "Organized Crime and Corruption in Russia and the NIS: A Framework for Comparative Analysis" (prepared for the second annual meeting of the Association for the Study of Nationalities, New York, April 1997), 28.

[9] Ibid., 27.

[10] Ibid., 59.

[11] Office of the Attorney General of the State of California, "Russian Organized Crime" (March 1996) URL: http://taren.ns.net/ ag/gangs/rusorgl.html: 1.

[12] Claire Sterling, *Thieves' World*, (New York: Simon & Schuster, 1994), 15.

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maintained complete control over their organization. Each criminal boss or "pakhan" controlled their operation through a middleman or "brigadier." In order to ensure his brigadier's loyalty, the boss hired spies to watch over the actions of his middleman. The intermediary administered the four different levels of the organizations. An "Elite Group" consisted of "management, organization and ideology" groups which were in charge of planning and strategy. Below the elite group was the support group which arranged the "organization of a specific crime" that a particular organized operation specialized in. Along side of the support group was the security group which was in charge of both "physical and operational" protection and intelligence. Lastly, below these two groups resided the "burglars, thieves, prostitutes, extortionists, and street gangs" who comprised the "Working Unit." These people actually committed the crimes but were "not privy to the identity of their leadership." Their job consisted of steeling, looting and extorting money and goods from everyday citizens during the Soviet era.[13]

Those criminals who broke any of the rules under the "Thieves' Code," which was comprised of eighteen rules, would be punished by death.[14] They could not get married or have children, for their fellow criminals were their only family. All criminals had to abide by the entire code. The most important rule was that they were not allowed to associate with or work for anyone in the state. Breaking this rule meant death. Eventually, however, the government was able to eventually force some of these criminals from organized crime into working for the state either through the military draft in World War II or giving them the authority to repress political dissidents.[15] After *perestroika* became the Soviet policy, these criminals were then pushed aside by the new breed of sophisticated criminal professionals and former members of the Communist elite who stole only to increase their own wealth and power.

The former senior-level Communist bureaucrats, KGB officials, military superiors, and MVD officials make up the second group, and they are once again taking control of the society. They represent the "nomenklatura" or special class of the Communist regime whom the

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[13] *Office*, 7.
[14] Ibid., 8.
[15] Goodman, 14.

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Central Committee placed on a list as "the most worthy Party members."[16] These groups tend to operate more sophisticated establishments since its members are highly educated, better organized and more up-to-date with technological advancements. Dr. Shelley explains that these criminals have "degrees in physics, communications...[and] they're very clever and skillful." Supporting the ranks of these criminal businessmen are the "old Soviet communist structures--the bureaucrats, the nomenklatura, who have been quietly investing a lot of their money."[17] They tend to infiltrate banks and financial institutions in order to launder money, evade domestic taxes, export their profits to foreign banks, and invest abroad. Also since they once operated the major resource industries within the Soviet Union, these officials have allowed the illegal export of many varieties of natural resources such as oil, metals and timber. This type of trade is detrimental to the development of the economy because these commodities slowly depleting. Moreover, most of the profits they gain from this illegal trade are invested abroad and not back into the Russian economy.[18] These former KGB officials and agents use their past experience in spying and intimidation along with their contacts abroad to act as security enforcers for various business owners and political figures inside Russia. These security forces extort protection money, usually by force, out of private business holders "from 10 to 60 percent of [their] pre-tax income for protection regardless of who provides it." Without these protection forces, businesses would not be able to exist.[19]

There has been speculation that the military officers, who guard Russia's military weapons, are selling these weapons to criminals on the side as a second income since the government is not paying their wages. There is a potential threat for the transfer of weapons of mass destruction expertise going abroad to such locations as North Korea and Iran.

Thirdly, is the next group of "gangs" which congregate together

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[16] Handleman, 96.
[17] Commission, 22.
[18] Ibid., 4.
[19] CSIS Task Force Report, *Russian Organized Crime: Global Organized Crime Project* (Washington,D.C.: The Center for Strategic and International Studies, 1997), 29.

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based on certain similarities. The members of a particular group may join together due to a similar job, an interest in a particular hobby or sport, geographic reason, or a common interest. Drug trafficking grew after independence because the controls during the Soviet period were so strict. Opium and hash plantations popped up in agricultural sectors of the Former Soviet Union, and the producers of opium were converting it into heroin. Since Russian drug lords grew and manufactured the drugs inside its own borders and had a local market, they could sell the drugs at low prices. The Afghan war veterans became addicted to heroin during the war and were their top customers. By 1992 Russian drug traffickers were delivering various drugs to all their Sicilian mafia counterparts in New York, and selling directly in various cities in America, Vienna, Budapest, and Frankfurt.[20]

Afghan war veterans have organized their own group of criminals in order to revenge the state. The Russian government treated the Afghan War veterans with a much worse reception than the American Vietnam War veterans received when they returned to the United States. Also, under the Soviet Union, Communist officials banned karate because they considered it too violent, and karate clubs went underground and formed their own gangs.

Lastly, the ethnic criminals consist of people from the clan cultures of Chechnya, Armenia, and Azerbaijan. These groups tend to target the Russians who suppressed them for so long during the Soviet Union period. However, they do attack businesses of people within their own ethnic groups, and they are forming alliances with criminal groups from other nations such as La Cosa Nostra with headquarters throughout Latin America, Columbian drug traffickers, and those involved with the Sicilian mafia. These groups are very violent and eliminate anyone who tries to compete with them. For example, Ray Innis of the CIA confirms that in 1994 there were approximately "600 businessmen killed, 20 bank executives killed and 700 offices blown up."[21] Most threatening is that they have extended their leverage not only to the public and private sectors of the country but to the international sphere as well. They see no border

[20] Sterling, 107.
[21] House, 13.

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lines and have established regular contact with their colleagues in 50 foreign nations, thus making it more difficult to try to apprehend these criminals.[22] These Russian criminal networks are posing an increasing threat to the United States. They tend to operate in the major cities of New York, Los Angeles, Seattle, Cleveland, Philadelphia, Chicago, Miami, Los Angeles, San Francisco, Sacramento, and San Diego. FBI Director Louis Freeh estimates that there are approximately 227 groups working within the U.S. in 14 states and 17 cities.[23]

If criminal influence continues to grow in the former Soviet Union, then organized criminal groups could possibly cause the return of a totalitarian regime to Russia. Although the current government of Russia claims to be taking a democratic approach, the power and control the "mafia" has acquired over Russian society resembles more of an autocratic or totalitarian regime. In the 1950s Carl Friedrich and Zbigniew Brzezinski developed a general model for a totalitarian dictatorship consisting of six characteristics. These properties consist of an official state ideology, a party committed to the state ideology, control of the military, monopolization of mass media, a command economy, and use of terror against an erratic section of society.[24] Ironically, Russian criminal groups have adopted these six characteristics in an adaptive way so that they can expand their influence and keep the rest of society under their control. Since many of the former senior-level Communist officials are running the once state-owned enterprises and former KGB agents are acting as their security services enforcers, these "gangster-bureaucrats" have taken control of the economy.[25] Many experts on organized crime in Russia argue that "the MVD and KGB supervised and influenced organized crime and directed its activities far beyond the borders of the former Soviet Union." The Communists selfishly appropriated State property and resources while dumping rubles abroad and selling resources abroad without investing the money back

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[22] CSIS, 3.

[23] House, 23.

[24] Carl J. Friederick and Zbigniew K. Brzezinski, *Totalitarian Dictatorship and Autocracy*, 2d ed. (Cambridge: Harvard University Press, 1965), 21.

[25] Handleman, 70.

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into Russia.[26] Also former Communist military officials have access to and even regulate the movement of state weapons. Furthermore they are gradually monopolizing the mass media since criminals and former government officials are the only people who can afford television networks and advertising firms. Those journalists who publicly support anti-corruption reforms in their writings or uncover revealing evidence about criminals are quite often victims of contract killings. Lastly, these crime networks use terror and intimidation as ways to suppress and embezzle all income levels of Russian society. They will do almost anything to "prevent anyone from challenging their control."[27]

There are several prominent mob leaders who have accumulated a plethora of wealth and power since the fall of Communism. The most notorious Vladivostok mob boss, Vyacheslav Ivankov or otherwise known as Yaponets, came to the United States hoping to spread his criminal activities and organize all Russian criminals into one gang within the U.S.[28] Before he arrived in New York, where Brighton Beach is one of the headquarters for the emigré Russian "mafia", Russian officials sentenced him to ten years in prison for robbing homes of the wealthy. Also while he was in Russia, he organized an international ring which "committed murders, trafficked in drugs, and engaged in extortion."[29] On June 8, 1995, in New York, a joint U.S.-Russian investigation led to his apprehension for attempting to extort $3.5 million from two Russian emigre businessmen who ran an investment company.[30] A "gangster-bureaucrat" or "comrade criminal" known as Anatoli Vladimirov specialized in the contract fraud business in order to build his own private protection operation. Although these crime bosses have been arrested, their legacy still lives on in Russia, and they have become archetypes for young Russians looking to make large amounts of

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[26] House, 3.

[27] Paul Goble, "Russia: Analysis From Washington – Organized Crime," *Radio Free Europe* (5 November 1996) URL: http:/www.rferl.org/nca/features/1996/11/F.RU.961105151604.html, 2.

[28] William Norman Grigg, "Cozy with the KGB," *The New American* 13 (September 1997) URL: http://www.kononykhine.com/ press/newamerican.html, 3.

[29] Joseph P. Fried, "9-Year Jail Term For Russian Named by U.S. As a Mobster," *The New York Times* (30 January 1997): 1.

[30] Office 10.

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money as quickly as possible.

Mr. de Borchgrave of CSIS asserts that today the real criminal powers in Russia are former state officials or have had close relations with such bureaucrats. These criminal powers include a former KGB chairman Victor Chebrokov, a former KGB General Bobkov Ivana, and a former chief of the Fifth Directorate of the KGB who currently is a senior official in the MOST group headed by Vladimir Goussinsky. Some investigators have suggested that Goussinsky, one of the largest private bank owners and successful developers in Russia, uses Moscow's city money, deposited in his bank, *Most*, "to finance his business ventures."[31] The mayor of Moscow Yuri Luzhkov and Goussinsky are close friends. Experts suspect that he probably uses his depositors' money to buy large stocks in *Sevodnya*, one of Russia's daily newspapers and in NTV, Moscow's only private television network.[32] These prominent figures reinforce the evidence that criminals usually have close relationships with powerful members of the state's infrastructure today, just as they did in the Soviet era.

These crime networks use terror and intimidation to attack various groups within Russian society. Those most viciously hit are the presidents of large banks. In the first eight months of 1996, 49 bank executives were victims of assassinations either because the mobsters wanted to take over the bank or because the bank presidents could or would not pay protection money.[33] For example, Alexandre Konanykhine, founder of the All-Russian Exchange Bank and owner of several private companies became a victim of the KGB-FBI cooperation effort. The security force he hired for protection seized all his property in Russia and kidnapped him in September 1992 in Budapest where he and his wife had been hiding. They were able to escape and seek refuge in the United States where he expanded his campaign against organized crime. As a result, Russian criminal groups within Russia who had connections to the Russian emigre factions within New York hired contract murderers to kill Konanykhine. Under the direction of a former Communist KGB official, the KGB requested that the FBI extradite

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[31] House, 30.

[32] Peter Fuhrman, "The Man From the Most," *Forbes* (5 December 1994): 98.

[33] "The Makings of a Molotov Cocktail," *The Economist* (12 July 1997): 5.

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him. The KGB were almost victorious in getting an extradition through the help of the INS officials, who discovered that he had lied about his employment history and accused him of fraudulently changing his visa status. As a result, the FBI arrested him in 1996 but did not extradite him. However, on August 26, 1997, federal District Court Judge T.S. Ellis III set him free on the grounds that the INS and FBI "had accepted tainted evidence from Russian officials to justify the arrest of Konanykhine, in anticipation of his delivery into the hands of Russian authorities."[34]

Russian criminals are more and more targeting foreign businessmen and entrepreneurs. In Moscow on November 2, 1996, an American businessman Paul Tatum was shot and killed in an underpass near Kievskaya metro station. He and another entrepreneur had been trying to settle a dispute over ownership of a local Radisson Hotel. The protection force of the other disputant was probably responsible for his death.[35]

Russian businessmen rather than foreign entrepreneurs face even greater danger. Small business owners such as Seran Akopyan, who opened a tiny grocery store in 1992, must supply a great portion of protection money to enforcers or *kryshas* who protect their companies from other criminal operations. They must pay protection money in order to stay in business because they can not rely on legal means of protection.[36]

In addition, the anti-corruption reformers within the government who voice their concerns and try to draft bills to fight crime are common targets. On December 20, 1996, mobsters slashed the throat of Sergey Slobodenyuk, who was the coordinator of the Liberal Democratic Party of Russia in the Adygea republic.[37] Many journalists who publicly express their views against corruption or reveal secret information they have discovered about criminals have been victims of mob-related crimes. While investigating a suspected corruption case involving the Western Group of Forces of the Russian Army, Dmitry Kholodov, a journalist for *Moskovskii*

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[34] Grigg, 1.
[35] CSIS 81.
[36] Handleman, 61.
[37] CSIS 80.

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Komsomolets, was killed by a suitcase bomb in October 1994.[38] Family and friends of these various groups of people are frequently harassed in order to manipulate and scare them into submission. In the summer of 1993, a wife of a Swiss businessman who refused to pay protection money died from a bomb while opening her apartment door in Moscow.[39]

Finally, there are many turf wars between organized criminal networks within Russia who are trying to eliminate the other competing gangs. An example of a "gangland slaying" occurred on January 23, 1997, when a drive-by shooting killed Vasily Naumov, a Moscow mob leader, while he was talking on his cellular phone in his car.[40]

The strength and influence of these criminal groups hamper the success of legitimate businesses within the Russian Federation. The Russian Department of Administrative and Criminal Legislation estimates that organized crime infiltrates 1500 state enterprises, 4000 share-holding societies, 500 joint ventures and 550 banks.[41] Many native Russian businesses have gone bankrupt because most of their profits are spent on protection money, and in 1993 there were 180 American businesses which fell victim to organized crime. However, Americans find it more difficult to start a business in Russia because they are unfamiliar with the Russian criminal culture. Therefore, many entrepreneurs have been reluctant to open businesses in Russia because they are not willing to take the risk. Foreign companies have heard the horror stories about the Russian mafia and look towards other countries to open their businesses.

This increasing trend of organized crime has had and will continue to have a detrimental impact on the Russian economy. One hundred of Russia's largest companies produce 40-50 percent of the GDP but only employ less than 3 percent of the labor force.[42] Since the Russian government deems them legal, Financial-Industrial Groups (FIGs) have been successful in gaining control of much of the

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[38] Ibid., 87.
[39] Ibid., 88.
[40] Ibid., 79.
[41] House, 3.
[42] "The Rooks Have Come," *The Economist* (12 July 1997); 17.

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economic scene in Russia. Currently, there are approximately 27 de jure FIGs which comprise 446 member companies and financial institutions and employ over 2 million people. These cartels help promote a market economy, yet they are dangerous because they "hamper efforts to build a more open and transparent economy" since so few people hold so much power and wealth in their hands.[43] These cartels prove that in Russia "capitalism was created without competition." Outsiders control only 11 percent of private companies while private farmers only make up 3 percent of the agriculture sector.[44] Many organized criminal groups have been able to infiltrate these newly privatized FIGs through extortion, illicit manipulation of the financial and real estate sectors, and kidnapping of senior share holders. Many of the illegal Soviet practices, which enable businesses to exist despite shortages of goods, have continued today.

In order to operate in Russia today, Russian legitimate and illegitimate businessmen work in concert with *kryshas*. These security forces are organizations or individuals "that can provide the protection and patronage necessary to the conduct of business."[45] A *krysha* normally has close relations with the banking and business sector as well as the different levels of the government and the military from which they form an illegal armed force. Ariel Cohen, a Senior Analyst for the Hermitage Foundation, asserts that there are criminals "acting as judges, utilizing the tax code, the criminal procedure code, and the civil procedure code" in order to settle disputes between private enterprises.[46] According to Russian statistics and interviews, approximately 80 percent of Russian businessmen pay protection money to *kryshas,* thereby increasing the price the consumer has to pay.[47]

Further, the once state-owned factories and companies or these FIG cartels which control Russia's natural resources are exporting them abroad in extraordinary amounts, thus depleting Russia's

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[43] CSIS, 31.
[44] "Rooks," 18.
[45] CSIS, 30.
[46] House, 26.
[47] Brian Duffy, Jeff Trimble and Ann Imse, "The Wise Guys of Russia," *U.S. News and World Report* (7 March 1994): 3.

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natural resource stockpiles. Also those corrupt government officials are secretly funneling state assets to personal accounts in foreign countries for hard currency for their own personal use. The social programs, which honest officials create to help Russia's poor, cannot be implemented because officials are stealing and investing the money elsewhere.

Before reformers can begin to establish plans of attack on organized crime and corruption, they must recognize the obstacles facing them in their path towards possible solutions. First of all, the government of Russia is allowing this expansion of organized crime due to its apathetic approach to law enforcement reforms and anti-corruption policies. Since most of those in the bureaucracy have ties to professional criminals and have accumulated vast wealth through corrupt tactics, they are not very anxious to draft or pass any type of bill which could threaten their own prosperity. Police officers are easily bribed or are themselves active members of organized crime. During the 1995 anti-corruption campaign, Major General Svyatolslav Golitsin of the Ministry of Internal Affairs (MVD) announced that those in charge of the campaign convicted 1,277 police officers, and they charged 533 of those officers for abusing their office.[48] Other law enforcement officials just look the other way out of fear and possible intimidation the mob may exert on their families.

Another obstruction stems from the Soviet tradition of low morality. This lack of morality existed throughout the days of the purges and gulag system as well as during the Brezhnev era of stagnation. Communists did not see anything wrong with killing people without proper cause or with stealing state assets for their personal use. This tradition exists today where state bureaucrats and criminals work together to control the country. Policemen see no wrong in accepting bribes instead of ticketing or arresting someone since the government has neglected to pay them. In 1993 approximately 4,500 cases of bribery by police officers were brought to trial.[49] In addition, members of organized crime kill those who compete or stand in their way, particularly law enforcers. For

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[48] Russia – Ministry of Internal Affairs, *IWR Daily Update Vol. 3, No. 168* (19 June 1996) URL: http://www.awpi.com/inte1Web/ IWR/Updates/3/168.htm1#2.

[49] Commission, 11.

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example, Major General Golitsin of the MVD said that in 1995 about criminals killed about 500 MVD officers.[50]

In addition, major flaws within the cooperative efforts of the two main law enforcement agencies in Russia and the United States are impeding the process of containing Russian organized crime. First of all, the two countries have yet to agree on a single definition for organized crime. Both the FBI and FSB are working with two separate definitions, thus creating difficulties in data collection and analysis in determining how threatening organized crime has become in Russia. One of the main differences in defining organized crime is that the U.S. regards corruption of government officials as "a tactic of the...criminal, [but] in Russia it is not uncommon for government bureaucrats themselves to be engaged in [criminal] activities." Also the Russian definition places organized crime into different categories based on "ethnicity, areas of operations, and types of leadership."[51] Lack of coherent definition between the two institutions is due to the language, cultural, and historical differences dividing the two countries. Therefore the FBI estimates that there are 200 to 300 groups active in Russia while the Russian statistics identified 8,000 groups in 1996. However, the UN in 1994 estimated that there were approximately 5,700 gangs operating in Russia.[52] Until both agencies can agree on a single set definition, the statistics will always be incomparable to make any joint prognosis for the problem.

Furthermore, today's Russian organized crime groups were able to gain control of most of the financial system very quickly due to the high level of sophisticated operations they have established and the contacts they have acquired throughout the years. Many are highly educated criminals who were among the top students in the universities during the Soviet period. They were at the head of the bureaucracy and business world during the Cold War. Their positions in the government and economy made it easy for them to have access to state assets in order to confiscate them for their own personal use. With the money they apprehended, they were able to buy modern technology and hire the financial experts who could perform such

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[50] Russia – Ministry of Internal Affairs, *IWR Daily Update Vol. 3, No. 157* (6 June 1996) URL: http://awpi.com/inte1Web/IWR/Updates/3/157.htm1#6.

[51] CSIS, 24.

[52] Ibid., 25.

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complex transfers without anyone suspecting illicit behavior. Their access to such sophisticated equipment makes it difficult for law enforcement agencies, which are operating on antiquated systems, to recognize and suppress their actions. Without up-to-date tools, the law enforcers are always going to be a few steps behind the criminals.

After Russian and U.S. law enforcement agencies have recognized these major obstacles to their struggle against crime and corruption, they can direct their attention towards possible solutions and different policy options each country can implement both separately and cooperatively. It is important to stress that organized crime is global and expanding rapidly everyday. In order for Russia to develop towards a market economy, Russia and the U.S. need to cooperate in the battle and form a "common strategy."[53] First of all, the Russian and U.S. agencies must develop a common definition of organized crime and method of data collecting and analysis so that they can compare and refer to each other's findings. A comparable process will ensure that each country can produce similar results and conclusions about the overall threat of Russian organized crime. Secondly, these two countries' need to reciprocate their findings with each other and cooperate with each other in criminal investigations and arrests. Each agency should create a public and classified database of criminals operating within their countries and share this information with each other in order to better track the movements and actions of these crime groups. In addition, Russia and the U.S. should work together to include other countries and international agencies in the struggle against organized crime. These other nations and groups can help locate and isolate those transnational criminal gangs. Lastly, there needs to be a continued effort for cooperation among Russian and Western law enforcement agencies. The International Law Enforcement Academy in Budapest, Hungary, "provides professional training in the latest investigative techniques against" all forms of organized crime.[54] Including more post-Communist societies within this police training school will help promote awareness of criminal activities and improve their legal systems in order to punish criminal offenders operating within their

[53] House, 4.
[54] Ibid., 2.

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countries. Also the FBI presence in Moscow should be extended out to other parts of Russia and the former Soviet Union. So far in Russia the cooperation between the FBI and Russian MVD officers has been successful without "any investigations leaked, nor any problems with [their] investigations."[55] The State Department's Anti-Crime Training and Technical Assistance Program (ACTTA) is an outgrowth of the 1995 Congress's FREEDOM support Act and SEED Act funds. Along with other U.S. law enforcement agencies, the ACTTA program provides training and technical assistance "in conducting effective investigations of world financial and commercial practices, policies, and codes" in order to "enhance the rule of law and respect for individual rights."[56]

Anti-corruption reformers within the Russian Federation to date have not been successful in their efforts against organized crime. The Yeltsin administration's fight against organized crime as well as support for democracy has mostly been declaratory. Any reform law Yeltsin may endorse will most certainly not pass through parliament. Therefore Yeltsin has signed many reform laws into effect even without sending them to the State Duma for their approval or ratification. Yeltsin's efforts for reform are in order to convince the West that he is at least trying even though he knows that Russian citizens will not observe these laws. However, there are honest people within the MVD, bureaucracy, and executive who want to help the President with his reforms. These people desire direction from the U.S. and western countries on which path they should take towards their goal.

In October 1992, Yeltsin announced his plans to place the then Vice President Rutskoi as head of the new "'Inter-Departmental Commission on Combating Crime and Corruption.'"[57] Unfortunately, Rutskoi and his colleagues used their new power to charge their opponents within the government with fabricated corruption. Yeltsin presented a new anti-crime decree in November 1993 that gave the police the authority to "conduct spot checks on

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[55] Ibid., 15

[56] U.S. Department of Stat – Office of International Criminal Justice, Anti-Crime Training and Technical Assistance Program" (1996) URL: http://www.ncjrs.org.dosactta.html, 1.

[57] Handleman, 288.

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people anywhere in Russia, increased police salaries, and improved protection for judges."[58] Police officers and the public who supported disciplined law enforcement applauded these actions and hoped these measures would put an end to organized crime. However, this policy was ineffective and once again criminal activity flourished. Nevertheless, in June 1994 Yeltsin tried again to instill martial law-like decrees. This new anti-crime program provided money to hire more police officers and to improve police pay. Police also could detain suspects for no reason for four weeks, search a suspect's home or office without a warrant, and examine financial records of suspects. In addition, the army could be used to supplant the MVD officers. On June 22, under the name "Hurricane," Yeltsin ordered 20,000 MVD and police officers to search hotels, businesses, and banks suspected of having links to organized crime. They made over 2,000 arrests, but were immediately under attack for violating human rights under the freedoms granted by the new Constitution.[59] In June 1995, Yeltsin announced a very similar decree to the June 1994 program for combatting organized crime. In May of 1997, Yeltsin issued Decree No. 484, which requires senior government officials, excluding State Duma members, "to submit yearly declarations of their incomes and property holdings to tax officials and personnel departments," however, there is enough intermittent time for them to transfer and hide their assets before the enforcers can review their accounts.[60]

Two other institutions in the Russian government have been just as unsuccessful as Yeltsin in enacting anti-crime and corruption legislation. In order to increase the number of agencies permitted to perform investigations, the State Duma on July 5, 1995, passed a law enabling "customs, tax police, and government security agencies...to have investigative powers just like the MVD, FSB, SVR, and border services."[61] In addition, the State Duma also passed on July 12, 1995, the law "'On Fighting Organized Crime,'" providing definitions of organized crime and criminal groups and stipulating the minimum

[58] Ibid.
[59] Ibid., 293.
[60] CSIS, 4.
[61] Ibid., 68.

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number of years certain people affiliated with organized crime could possibly receive as punishment.[62] General Aleksandr Lebed became the Russian National Security Chief on July 16, 1996, and immediately began his fight against crime and corruption. His July 1996 decrees included additional law enforcement personnel, more judges receiving more pay, police confiscation of criminal funds which would be added to the police's budget, removal of corrupt officials from their positions, creation of a protection program, and more authority to Moscow's mayor and governor to "'introduce additional measures' to enforce law and order."[63]

Even though all of these measures have not proven yet to be effective, they do acknowledge that there is a growing concern for organized crime and its corruptive counterparts within the Russian government. Also this evidence of concern has had an important impact on the increasing cooperation of Russia with the various law enforcement agencies in the Western world.

Russian reformers and law enforcement officials committed to ending corruption and crime must cooperate together to bring this threat to the attention of the rest of the country. First, they need to develop strict domestic legislation that will successfully convict criminals who comprise all levels of society. At first they just may need to develop and enforce an authoritarian approach to law and order while respecting individual human rights.[64] Russian reformers must separate the bureaucrats and legislators from the economy. With bank presidents and entrepreneurs holding political position within the law-making sector of the government, little can be done to fight illicit behavior. Also bureaucrats' accounts should be transparent in order to track any illicit funds that may appear in their bank accounts.

The creation of an effective legal structure should come next in order to enforce these laws and punish those offenders. By coordinating their forces, the various law enforcement and security agencies within Russia can work together during investigations and increase arrests. A strong and impartial judicial system will ensure proper and fair punishment for those arrested and convicted.

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[62] Ibid.
[63] Ibid., 69.
[64] Commission, 24.

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Russians are not familiar with life sentences, which could possibly deter criminal acts, since their maximum sentence in Russia is usually only 20 years.[65] Working with the Western organizations will help Russia create successful legal frameworks. Reformers should create laws that regulate industry, business and trade so that legitimate businesses can prosper and illegitimate ones will disappear. Also in order to provide new Russian businessmen alternatives to paying protection money to the *krysha*, Russian legislatures need to quickly pass a rational and fair tax code. In addition, the government must develop a system which will ensure laborers and pensioners that their salaries and pensions will arrive on time and in the full amount. Without these measures, Russian citizens will more likely continue to work with criminal groups.

The current circumstances in Russia cannot remain the same forever. Changes will occur: either for good or for bad. This writer sees three different paths that Russia can take in the future. First, the situation within Russia could deteriorate so far that the Russian citizens refuse to support Yeltsin's reforms and elect an authoritarian leader such as the radical nationalist Vladimir Zhirnovsky or the Communist Party leader Gennadii Zyuganov. Both of these factions have already worked to obstruct the decentralization process inherent in Yeltsin's reforms. A totalitarian Russian leader would most surely disrupt the present relations between Russia and the U.S. government as well as with many other democratic countries. An extreme nationalist leader such as Zhirnovsky, whose platform in 1993 consisted of the return to the czarist empire, Soviet price controls and a return to authoritarian rule in order to suppress crime, could mean a return to the Cold War, and with it the struggle for alliances and nuclear power.[66] Many police officers support such authoritarian politicians because they grew up during the Soviet era and distrust, as well feel a sense of jealousy toward, the new breed of wealthy and frequently corrupt entrepreneurs. As a result, these MVD officers have a "longing, a nostalgia, of the old Soviet way of imposing order."[67]

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[65] House, 15.
[66] Handleman, 307.
[67] Commission, 12.

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Democracy, of course, is the route the U.S. hopes Russia will pursue. However, Russian citizens had expected that democracy would quickly bring prosperity, and largely due to organized crime that has not happened. Many of the younger generation is still optimistic about the country's future, but 62% of those over age 65 believe that in the past year their lives have gotten worse.[68] Prosperity, on the other hand, has come very easily and quickly for many members of the political elites within the former Soviet Union. Therefore, the poor are frustrated and angered by Yeltsin's reforms. The former Communists took command of the states' assets and the average citizen was left with none of the spoils. The latter see democracy and market reforms as bringing wealth only to those who are already rich. Therefore, truly democratic institutions need to replace the old ones and an efficient legal structure must be established. The popular conifdence of the people in support of democratic reform, along with much patience, is needed if a true democracy is to survive in Russia, and this cannot come about while the country's econom remains dominated by the mafia.

Lastly, Russia is in real danger of becoming a "mafiocracy"[69] or, in other words, a "criminal-syndicalist state."[70] Such a path consists of a combination of the main criminal groups, politicians, law enforcement officials, and bureaucrats working together to run the government, economy and military. Many ordinary Russian citizens believe that the "biggest criminals in Russia today [are] not the mafiya people but members of the old regime who are still active" since criminals channel their gains through the bureaucrats.[71] This system would recognize no written rule of law except such laws as they establish for their own personal greed. A very thin line between legal and illegal behavior would exist in Russian business. These criminal-bureaucrats would control the media, business sector, and economy to serve their purposes. There would be no desire for cooperation with the governments of other countries, only with other criminal groups working within the various nations. The mafiocracy would use intimidation and terror to control the citizenry and prevent any

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[68] "Some," 8.
[69] Konanykhine, 1.
[70] CSIS, 26.
[71] Commission, 15.

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opposition. Since the mafiocracy has no democratic institutions, there would be no true elections. Contacts with those in government would be the only way to be successful. It would be a form of government neither democratic nor Communist, for it would allow privatization but only for the criminal privileged class. Contacts outside the Russian borders would only be for economic reasons. This is not the route the U.S. would like the Russians to pursue.

Without a doubt, the Russian democratic reformers will encounter many obstacles in their path. However, the United States can ameliorate some of their difficulties along the way by continuing to aid them in their battle against organized crime. The U.S. needs to openly recognize the fact that such a threat exists so that more support can be thrown towards genuine democratic leaders who are striving to fight their way through the corrupt walls of the Russian Federation's present institutions. The Russian law enforcement agencies and those committed to reducing crime and corruption must sever the close relationship between criminals, members of the KGB and state officials. Without this separation, Russian reformers will not be able to contain, let alone reduce, this powerful forces of organized crime.

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Dwight D. Murphey

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The Gulf Monarchies: Economic and Political Challenges at the End of the Century

Gawdat Bahgat[1]
Indiana University or Pennsylvania

The author examines recent social, economic, political and military developments in the six Gulf monarchies (Bahrein, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, and their international implications for the foreseeable future.

Key Words: Gulf States, Oil, Arab politics, Sunni, Shia, Bahrein, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

For many decades in this century, the Arab Gulf societies enjoyed a high level of socioeconomic and political stability. Their immense economic resources and credible religious foundation appealed to the great majority of their populations. The royal families were able to meet their peoples' financial aspirations and expectations, and at the same time, they were seen as the defenders of the faith against radical Arab nationalism, communism, and Zionism. Their emergence as independent nation-states, mostly after the Second World War, did not initially alter the main themes of their domestic and foreign policies.

However, this situation did not last. In the 1990s, the Gulf societies and political systems are very different from what they were two decades earlier. In all the six Gulf monarchies, the rulers confront a more assertive internal opposition and strong external threats. Two intertwined developments have contributed to the growth of public dissatisfaction: the stagnant oil prices since the mid-1980s, and the two regional wars (Iran-Iraq war and the Gulf War). On one side, the decline in public revenues has imposed restrictions on the generous welfare state of the 1970s which guaranteed employment, education, health care, and many other social services to all citizens. Meanwhile the Gulf governments have been compelled

[1] The author would like to acknowledge the generous support he received from Professor Lisa Saurer and Professor Lisa Bash-Ward.

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to consider other economic strategies in order to increase their revenues and reduce their expenditures. On the other hand, the huge costs of supporting Iraq in its war against Iran and then the war to liberate Kuwait as well as arms-purchases have depleted national treasuries. Moreover, no stable regional security system came out of the Gulf War. Iraq was defeated but maintained enough power to pose military challenge to its neighbors and, at the same time, Iran is rebuilding its military power. Finally, the Gulf War and its aftermath brought Western troops to defend the Gulf states. This close cooperation between the royal families and the Western countries has weakened the religious appeal of the political regimes.

In short, since the early 1990s the six Gulf monarchies have been under increasing internal and external challenges. The nature and magnitude of these threats will be examined. Furthermore, the current responses to this changing environment by the political regimes and their strategies for the near future will be analyzed. The contention is that in the short term there is not immediate threat, but in the long run the stability of the Gulf regimes should not be taken for granted.

Oil

No single factor dominated the Gulf societies as oil has. Moreover, oil will remain the main determinant in shaping the socio-economic, political, and the security environments in the region. In the Arab Gulf states, oil was discovered in the early 1930s, but was not utilized commercially until the end of the Second World War. Since then, the region's share in the world oil supply has been stable. In 1970 it was 27.6% and in 1996 it was slightly reduced to 25.9%.[2] This steady oil supply from the Gulf is likely to increase over the years due to the huge reserves in the region. Proven reserves can be defined as "crude oil that is recoverable using present technology at current prices."[3] In 1997 the share jumped to 65.2%. Given the

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[2] Energy Information Administration, International Petroleum Statistics Report, Washington DC: US Government Printing Office, May 1996, Tables 1.4 & 4.4, pp. 9 & 43.

[3] Energy Information Administration, International Energy Outlook 1995, Washington DC: US Government Printing Office, 1995, p.27.

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resultant strategic importance of the region world powers will continue to be interested in the security of the regions.[4] Given this strategic significance of the region, world powers have been, and will remain to be, interested in both the security of oil supplies and the stability of oil prices.

Unlike many other commodities, the prices of oil are not merely reflections of market forces (i.e. supply and demand). Rather, political changes have often played an important role. This role can be seen by analyzing Table 1.1.

The dramatic rise in 1974 was caused by the Arab oil embargo in the aftermath of the Arab-Israeli war of 1973. The second spike, 1979, was in response to the political turmoil in Iran which ended

Table 1.1
Oil Prices (1972-1997) in US dollars per barrel

Year	*$*	*Year*	*$*	*Year*	*$*
1972	01.90	1980	35.69	1988	13.22
73	02.83	81	34.32	89	15.69
74	10.41	82	31.80	90	20.50
75	10.70	83	28.78	91	16.56
76	11.63	84	28.07	92	17.21
77	12.38	85	27.53	93	14.90
78	13.03	86	12.97	94	14.76
79	29.75	87	16.92	95	16.09
				96	18.56
				97	18.14

Source: British Petroleum Company, BP Statistical Review of World Energy 1998, London: British Petroleum Company, 1998, p.14.

with the overthrow of the Shah and the establishment of the Islamic Republic. The 1986 plunge was due to deliberate Saudi policy to reduce oil prices in order to weaken the Iranian economy. Finally, the

[4] British Petroleum Company, BP Statistical Review of World Energy 1998, London, British Petroleum Company, 1998, p.4.

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short-lived rise of 1990 occurred when Iraq invaded and occupied Kuwait. It is important to point out that these political interruptions in oil supplies had been associated with more negative impacts than just an increase in oil prices. Historically, they caused an increase in inflation and unemployment rates and a decrease in gross domestic product (GDP).

To sum up, oil prices had been stagnant at a low level since the mid 1980s. Equally important, the future is not promising. The repeat of the 1970s' shocks is not likely. United States, Japan, Germany, and other countries created Strategic Petroleum Reserves in order to overcome any short-term decline in oil supplies. More important, since 1990 Western powers have been stationed in the Gulf to protect oil fields. Thus, no significant escalation in world oil prices is expected, instead, it will be a gradual increase. Indeed, the United States Department of Energy predicts that until the year 2010, prices will not exceed $22.32[5] This modest rise will have a significant impact on the evolution of the region's economies.

Economic Systems

Since its exportation in commercial quantities in the aftermath of the Second World War, oil has dominated the Gulf economies. The term, "rentier economy" is used to describe the main characteristics of the oil-dominated economies.[6] Rent is defined as "the difference between the market price of a good or a factor of production and its opportunity cost.[7]" This rent (i.e. oil revenues), has provided the Gulf monarchies with immense wealth and enabled them to create a "cradle-to-grave" welfare state in which substantial goods and social services are available to the citizens either heavily-subsidized or

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[5] Energy Information Administration, International Energy Outlook 1998, Washington DC: US Government Printing Office, 1998, p.38.

[6] One of the first to use this term was Hossein Mahdavy, "The Patterns and Problems of Economic Development in Rentier States: The Case of Iran," in M.A. Cook (ed), Studies in the Economic History of the Middle East, New York: Oxford University Press, 1970, pp.428-467.

[7] Alan Richards, "Oil Wealth in the Arab World: Whence, to Whom, and Whither?" in Dan Tschirgi, (ed), The Arab World Today, Boulder, CO: Lynne Rienner Publishers, 1994, p.69.

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completely free of charge. Furthermore, the state did not need to tax its people and, given the large economic pie, social class conflict almost did not exist. This was the case during most of the 1970s and 1980s. However, the sharp decline of oil prices since 1986 has posed a serious challenge to this generous welfare state.

In 1980 oil revenues in Kuwait, Qatar, Saudi Arabia, and UAE totaled $143 billion. By 1996 they had shrunk to only $72 billion.[8] This huge reduction brought the era of abundance to an end. These low oil prices combined with a policy of overspending and huge military expenditures suggested that "business" could not "go on as usual" for very long and a new economic approach was needed. However, the Gulf regimes have been slow in appreciating the need for a change. The huge financial resources which had accumulated in the late 1970s and the early 1980s delayed the process of adjustment to the new economic environment. Drawing down on these assets has contributed to a shift of the external current account balance from a surplus to a deficit of about 10 percent of GDP on average in 1991-95.[9] Another tactic to resist fiscal discipline has been budget deficit which reached a peak of 9 percent for the six Gulf monarchies in the first half of this decade.[10] In order to cover this deficit, a common practice has been to rely on domestic borrowing through the issue of government bonds. Thus, in Saudi Arabia, for example, total domestic debt rose to $95,500 million in 1995, equivalent to 81 percent of the kingdom's gross national product (GDP).[11]

A parallel strategy has been to call on the private sector to shoulder the financial burdens with the governments. Therefore, the Gulf regimes have taken a number of initiatives to boost the private sector. These include: partnership, tax incentives, and development of local stock and bond markets. These strong links with the state have left the private sector with little autonomy and hindered its ability to play a significant role in the region's societies. In all the six

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[8] Central Intelligence Agency, Handbook of International Economic Statistics 1997, Washington DC: US Government Printing Office, 1998, p.94.

[9] International Monetary Fund, World Economic Outlook, Washington DC: International Monetary Fund, May 1996, p.100.

[10] Ibid, p.100.

[11] Middle East Economic Digest, "Special Report: Saudi Arabia," Vol.39, No.44, November 3, 1995, p.37.

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Gulf states, the governments still lead the process of re-engineering the economic structure.[12] For the last several years the focus has been on a two-fold strategy: privatization and diversification.[13]

For several decades, the Gulf economies have been characterized by a noticeable state-domination of almost all aspects of the economic process (i.e. production, distribution, allocation of resources, finance, and trade.) Following the relative decline of their financial resources since the mid-1980s, the six Gulf monarchies have introduced a number of initiatives aimed at relaxing the weight of government control and thereby increasing the efficiency of their resources. Stock exchange markets have been opened in one Gulf state after the other; one objective of this move being to attract the Gulf money which was otherwise being invested in foreign markets. In 1995, the World Bank estimated the stock of capital abroad from the region at about $300 billion, more than any other region in the world as a share of GDP.[14] Meanwhile, several laws have been enacted to encourage foreign investment (particularly in Bahrain and Oman) and a number of public enterprises have been sold to the private sector in all the six states. Furthermore, in order to liberalize their foreign trade sector, four of the Gulf states have already joined the World Trade Organization. In 1998, the other two, Saudi Arabia and Oman, began negotiating the terms of their membership. Kuwait has gone further than the other Gulf monarchies in privatizing its economy, although it is important to emphasize that throughout the region privatization remains in its infancy. Economic liberalization still has a long way to go. This conclusion can be applied to the other side of the economic strategy: diversification.

The demonstrated vulnerability of the Gulf states to the fluctuation of oil prices has prompted them to embark on attempts

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[12] For a thorough discussion of the private sector in the Gulf see Andrew C. Hess, "Peace and Political Reform in the Gulf: The Private Sector," Journal of International Affairs, Vol.49, No.1, Summer 1995, pp.103-122.

[13] For a more detailed discussion of these two economic strategies see Cyrus Sassanpour, *Policy Changes in the Gulf Cooperation Council Countries*, Washington D.C.: International Monetary Fund, 1996.

[14] World Bank, Claiming the Future, Washington DC: World Bank, 1995, p.24.

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to diversify their economic bases away from sole dependence on the oil sector. Kuwait has pursued a policy of developing foreign refinery projects in the form of joint ventures and has invested heavily in the international hotel industry. Qatar's hydrocarbon-based industrialization strategy has centered on the development of downstream processing facilities for oil and gas feedstocks.[15] The Saudi Basic Industries Corporation (SABIC) has taken the lead in developing the kingdom's industrial sector. At the same time, agriculture has been the subject of intensive reforms. In the mid-1980s, Saudi Arabia was the world's third largest food importer, but in 1991 it became the world's sixth largest exporter of wheat.[16] Similarly, both Kuwait and the UAE invested in local fruit, vegetable and poultry production in order to achieve food self-sufficiency. However, a severe water shortage has forced all of them to reduce their investment in food production.

To sum up, the Gulf monarchies, in contrast to Saudi Arabia, are too small to diversify. Their main, and almost only, economic asset is oil. The region's attempt to diversify its economic bases faces two important challenges. On one side, the limited water supply hinders any expansion in agriculture. On the other hand, the smallness of the pool of well-trained indigenous labor makes the switch to industrialization unrealistic. Put differently, none of the Gulf states has the potential of becoming another Singapore. Most likely, the hydrocarbon sector will remain the main engine of the Gulf economies in the foreseeable future. This modest success in privatization and diversification left the royal families with very few options to balance any decline in their financial assets, and cuts in public spending have become a necessity.

In the first half of the 1990s the six monarchies took a number of measures to boost their coffers. These included reducing subsidies on water, electricity, domestic airfares, and fuel. Meanwhile, in an attempt to raise public revenues, the cost of visas for foreign workers has been increased. Finally, public spending has been frozen at the current levels. In Saudi Arabia, for example, government expenditure

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[15] Europa Publications, The Middle East and North Africa, London: Europa Publications, 1996, p.816.

[16] Natasha Beschorner, Water and Instability in the Middle East, London: Brassey's, 1993, p.72.

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was reduced by 19% in 1994, 6% in 1995, and was frozen in 1996.[17]

In conclusion, it is important to observe that the six Gulf monarchies do not face a fiscal crisis. Rather, what they confront is a relative decline in their financial resources. They are neither poor nor about to become so. They still sit on top of the world's largest proven oil reserves.[18] Thus, the welfare state remains in place, albeit less generous. Furthermore, unexpectedly, oil prices were higher in 1995 and 1996 than was predicted. This provided additional income which can be seen both as a blessing and a curse. On one side, it helped the Gulf states to repay some of their arrears both internally and externally[19] and led to budget surpluses instead of deficits. On

Table 1.2
Demographic Profile of the Gulf Monarchies (1960-2000)

Country	Estimated population (mils.)			Annual pop. growth (%)	
	1960	*1993*	*2000*	*1960-93*	*1993-2000*
Bahrain	00.2	00.5	00.6	3.8	2.4
Kuwait	00.3	01.8	01.8	5.8	0.3
Oman	00.6	02.0	02.6	3.9	4.0
Qatar	NA	00.5	00.6	7.8	1.9
S. Arabia	04.1	17.1	21.3	4.4	3.1
UAE	00.1	01.8	02.1	9.5	2.1

Source: World Bank, Human Development Report 1996, New York: Oxford University Press, 1996, p.178.

[17] For more details see Mark Nicholson, "Saudi Budget Aims at 6% Spending Cuts," Financial Times, January 3, 1995, p.B4. And, Middle East Economic Digest, "Cover Story: Saudi Arabia Ends the Uncertainty," Vol.40, No.2, January 12, 1996, p.3.

[18] Michael Collins Dunn, "Is the Sky Falling? Saudi Arabia's Economic Problems and Political Stability," Middle East Policy, Vol 3, No 4, April 1995, p.33.

[19] In May 1995 Saudi Arabia paid back the last instalment on the $4,500 million sovereign loan it took out in 1991 to meet costs related to the Iraqi invasion of Kuwait.

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the other hand, this relative improvement may tempt the governments to proceed more slowly with economic liberalization. Any such policy relaxation could have negative effects in the long run,[20] given the demographic structure of the Gulf societies. Table 1.2 shows some of the main characteristics of the population map in the region.

The figures show an extremely high population growth rate particularly from 1960 to 1993. In a little more than three decades the region's population went from 5.3 million to 24.3 million, a more than fourfold increase. This growing number of people means a strong need for jobs. Furthermore, because the population is younger this itself adds increased pressure on the economic system to generate more jobs. Given the fact that the oil industry is capital-intensive, unemployment has already become an important challenge to the Gulf states. Put differently, population growth has outpaced job creation. In order to meet this challenge the Gulf governments have become the main employers. In Kuwait, 93% of the labor force works for the government.[21] This expanding bureaucracy has complicated the process of economic reform. A productive economy would require the downsizing of public employment and the shift of the labor force to the private sector. Meanwhile, for many years the Gulf states have invested heavily in education with a view to providing their populations with the skills which will enable them to replace skilled foreign workers in the private sector. But, the growing number of educated youths has disturbed the political stability of the Gulf regimes.

Political Regimes

In the early 1990s the political environment in the Gulf was ready for change. The governments were struggling to fulfill their commitments to a growing population with declining financial resources due to the collapse of oil prices. Given the significance role of generous welfare policies in securing people's support, the political consensus was under pressure. This pressure was further aggravated by the Gulf War and its aftermath. First, the war drained public

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[20] Middle East Economic Digest, "Cover Story: OPEC Counts its Blessings," Vol.40, No.39, September 27, 1996, p.5.

[21] Economist, "Kuwait: They Voted," Vol.341, No.7987, October 12, 1996, p.50.

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treasuries. Second, it highlighted the failure of the defense policies of the Gulf states and their dependence on foreign powers. Third, it invited Christian armies to defend the "land of Islam," a notion which has proved objectionable to a segment of the Gulf population. All these changes indicated that the rules of the political game in the aftermath of the Gulf War would be different from those of the previous decades.

Many of the ruling families realized the need to respond to the new pressures in a new way. The political developments in the last several years, and for some time to come, reflect the interaction between three forces: the prevalence and depth of popular discontent; the existence of an organized opposition capable of exploiting and mobilizing this discontent; and the various responses by the different ruling regimes. Consequently, political developments in the region since the early 1990s share some similarities, but they also show basic differences.

Kuwait

Kuwait has taken further steps than the other five Gulf monarchies along the road to representation and accountability. Not surprisingly, the Freedom House Survey classifies Kuwait in its annual edition, *Freedom in the World*, as "partly free", the other Gulf states are classified as "not free."[22] This distinction can be explained by a combination of geographical and historical circumstances. The emirate is located very close to the three regional powers, Iran, Iraq, and Saudi Arabia, and has always been under contradictory pressures from all of them. A relatively open society has served as a survival strategy. Unlike the other Gulf states, Kuwait is the only one that completely ceased to exist during the Gulf crisis. In order to restore the state's sovereignty, the royal family had to appeal to two constituencies: external and internal. It was necessary to present Kuwait as a democratic government in order to secure Western support and, eventually, Western leaders' commitment to liberate the emirate. Meanwhile, the Emir needed to mobilize his people behind

[22] Kaplan Roger, (ed), Freedom in the World: The Annual Survey of Political Rights and Civil Liberties 1995-1996, New York: Freedom House, 1996, pp.536 $ 537.

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him in this historical juncture. To do so, he had no choice but to promise a full restoration of parliamentary life and popular participation.

This pledge was made in Jidda, Saudi Arabia, during the Iraqi occupation in 1990. A little more than a year after liberation public elections were held to choose fifty members for a new National Assembly. Approximately 82,000 males, about 15 percent of the population, were registered to vote. In 1994, the Assembly passed a new law which extended the right to vote to the sons of naturalized Kuwaiti citizens – about 110,000 males.[23] Thus, in the following elections, October 1996, the number of citizens eligible to vote was more than doubled.

In closing, it is worth noting that the Kuwaiti experiment is being watched carefully by its neighbors. Given the geographical and cultural approximation, the experience in Kuwait can have a strong impact on political developments in the other Gulf states.

Bahrein

Since the mid-1990s, civil strife in Bahrain has been among the worst the Gulf states have ever witnessed. The Khalifa ruling family has faced a prolonged confrontation with a growing opposition. This can be explained, partly, by the fact that the majority of the population are Shia'a (about two-thirds) while the ruling family is Sunni. In consequence there have been claims of discrimination in education, jobs, and other economic and political benefits. This tense situation has been further aggravated by alleged intervention by both Iran and Saudi Arabia. For a long time, Tehran has maintained special relations with the Shia'a community in Bahrain. These close ties were claimed by both the Shah and the Islamic regime. By contrast, since Saudi Arabia is only about fifteen miles from the emirate, Riyadh has made the consolidation of the Bahraini regime a Saudi national security issue. This special relationship between Riyadh and Manama has another dimension. Bahrain's oil resources have been almost depleted. The emirate depends, to a large extent,

[23] United States Department of State, Country Reports on Human Rights Practices for 1994, Washington DC: US Government Printing Office, 1995, p.1127.

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on generous Saudi financial aid. This close military and economic cooperation has compelled Bahrain to follow the Saudi cautious approach toward political reform.

In July 1992, a petition was presented to the Emir calling for the restoration of the constitution and the elected National Assembly (both were suspended almost two decades ago). Instead, the Emir appointed a thirty-member Consultative Council with no formal legislative power. This council has not met the aspirations and demands of the opposition. Accordingly, a Committee of the Popular Petition (CPP) was created in October 1994. Embracing all religious and political tendencies it was able to gather 25,000 signatures in support of a petition calling for greater popular participation in government. The government's response was to arrest the leaders of the CPP and, in response, a wave of demonstrations and riots started in December 1994 and lasted for almost eighteen months.

In an attempt to contain popular discontent, the government adopted a stick and carrot approach. In addition to arrest and detention, a cabinet reshuffle took place in June 1995, sending a signal indicating a new direction for the future. At the same time, Manama accused Tehran of promoting the riots, although since the election of Muhammad Khatami as president of Iran in May 1997, the tension between the two countries has been reduced tremendously and diplomatic relations have been restored.

Oman

Oman has a more homogeneous society than Kuwait, with its large Shia'a minority, or Bahrain, with its Shia'a majority and Sunni rulers. Both the Omani ruling family and the majority of its people belong to a sect of Islam called Ibadiyya. This relative homogeneity has played a significant role in shaping the political setting in Muscat by creating a less confrontational and more accommodative relationship between the royal family and the people. This has been enhanced by the impressive rise in the standard of living since Sultan Qaboos came to power. Unlike Kuwait and Bahrain, Oman never had a constitution or elected legislature. Instead, a Consultative Assembly was established in 1981 with no legislative power.

Unlike most other Gulf states, no petitions were presented to the Omani government in the aftermath of the Gulf War. Nevertheless,

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the Sultan took the initiative and replaced the Consultative Assembly by a fifty-nine-member Consultative Council in 1991. The leading citizens in each of the fifty-nine provinces nominated three persons and the Sultan chose one of them to represent his province. After the first national census in 1993, the membership was expanded to eighty. Moreover, two women were selected to serve in the second Council making Oman the first, and so far the only, Gulf monarchy to have female members in the legislature. Finally, it is worth noting that this harmony and peaceful evolution of the Omani political system did not stop an attempt to overthrow the government in 1994. The plot failed and the government arrested hundreds of people. Later, most of them were released in celebration of the Sultan's twenty-fifth anniversary of his rise to power.

United Arab Emirates

This example of positive ties between the ruling family and the people is echoed in the neighboring United Arab Emirates (UAE). Oil was discovered in the UAE in the late 1950s, as a result of which it soon became one of the wealthiest countries in the world. The acquisition of this enormous fortune in a short time has left very little incentive for discontent. Put differently, the economic pie was large enough to make everybody happy. Therefore, no petitions were presented to the rulers. Instead, the UAE established a forty-member Consultative Federal National Council comprised of advisers appointed by the rulers. As in other Gulf states, this council has no legislative power.

Qatar

Recent political developments in Qatar have been shaped by three forces: its small population, rivalry with neighboring countries, and succession problems. The emirate has the smallest population in the Gulf, a little more than half a million people. This, combined with its massive income from oil and natural gas, has created the need to import more foreign labor than other Gulf states. Foreigners outnumber nationals by four to one, and this huge imbalance in the demographic structure has deepened the ruling family's sense of vulnerability. The history of rivalry with the rulers of Riyadh and Manama has deepened the sense of alienation. Finally, the succession to the throne in recent Qatari history has been more irregular and

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less smooth than the other monarchies. Taken together, these factors have provided reason for the rulers to take a strong hold on power with little room for compromise and tolerance. No elections have ever been held. Furthermore, when more than fifty prominent citizens signed a petition in December 1991 calling for an elective assembly and political reform, the government responded by a program of interrogation and harassment.

Saudi Arabia

Since the Gulf War the Saudi royal family has confronted more challenges than most of the other Gulf monarchies. The war and its aftermath have weakened the Saudi regime in many ways. First, for most of the two decades preceding the invasion, the kingdom had played a prominent role in regional policy. The conflict meant the collapse of the political and security system in the Gulf and the failure of the backbone of this system – Saudi Arabia. Second, the invitation to foreign troops to protect the kingdom indicated that despite immense military expenditures since the 1970s Riyadh was not able to defend itself. Third, during the crisis the kingdom was home for more than half a million non-Muslim and non-Arab Westerners. Their presence dealt a heavy blow to the religious appeal of the Saudi regime.

Consequently, in the two years following the Gulf War a number of petitions were signed by prominent Saudi citizens calling for more public accountability, popular participation, and a return to the basic tenets of Islam. The magnitude and source of the opposition shocked the government and was seen as a direct challenge to a fundamental component of the regime's legitimacy. In response, the state took many steps to confront the opposition. It tried to accommodate some, punish others, and, in the process, to contain all.

One year after the Gulf War King Fahd promulgated a long-awaited Basic System of Government. A Consultative Council was inaugurated in December 1993, all its sixty members being appointed by the King and, as elsewhere in the region, it has no legislative power. Another important development was the formation of a new cabinet in August 1995. Most of the fifteen new members are technocrats, a sign of a more efficient administration. In addition, two important religious institutions were created: the Ministry of Islamic

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Affairs in 1993, and, a year later, the Supreme Council for Islamic Affairs, comprising many members of the royal family and chaired by the King's brother, Prince Sultan.

Another attempt to contain criticism has been through punishment. In September 1994, the two most charismatic preachers, Salman Al Audah and Safar Al Hawali, were arrested. Other critics, such as Muhammad Al Massari and Saad Al Faqih, were detained for some time. Later, these two figures fled to Britain where they founded the Committee for the Defense of Legitimate Rights (CDLT) to monitor human rights abuses in the kingdom. Another important opponent to the Saudi regime is Usama Bin Ladin, who made a fortune when he worked as a contractor in the Kingdom and later has generously funded a number of Islamic movements all over the world. In an unprecedented step, in April 1994, the government stripped Bin Ladin of his Saudi citizenship.

Moreover, in the early 1990s an attempt was made to reach a compromise with the Shia'a dissidents led by an organization known as the Reform Movement. Riyadh agreed to release some of the Shia'a prisoners, allow others to return to the kingdom, and lift some of the restrictions on the Shia'a community. In return, the organization agreed to suspend its monthly magazine *The Arabian Peninsula* and stop its rhetoric against the Saudi government.[24] Then in November 1995 a car-bomb exploded near a communication center in Riyadh killing six people, five of them Americans, and injuring another sixty. In June 1996 a gasoline tanker carrying a bomb exploded outside a residential compound near Dhahran killing nineteen Americans and injuring hundreds of other nationalities. These two unprecedented attacks are seen as an embodiment of mounting opposition to Saudi defense policy involving an American presence in the kingdom.

A number of conclusions can be drawn from the foregoing survey of the recent political developments in the Gulf monarchies. First: Who are the opposition groups? Theoretically there are a number of potential sources of organized opposition. These include members of

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[24] Madawi Al Rasheed and Loulouwa Al Rasheed, "The Politics of Encapsulation: Saudi Policy Towards Tribal and Religious Opposition," Middle Eastern Studies, Vol.32, No.1, January 1996, p.112.

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the military, liberal technocrats, and dedicated Islamists. For a long time the Gulf rulers have watched and learned about coups, and attempts coups, all over the Middle East. Therefore, they have consolidated their control over the military. In all the six Gulf states, there has never been any change in the leadership as a result of a coup d'état. Simply stated, the loyalty of the military is not in doubt for the time being, and any liberal technocrats are either very weak or have been co-opted by the political regimes. Given the dominant role of religion in the Gulf societies, it is inaccurate to speak of a liberal democratic opposition in the Western sense. Opposition groups in the Gulf do not primarily differentiate themselves on the basis of economic policy preferences.[25] Instead, their focus is on the restoration of a pure form of Islam to their societies. The absence of autonomous organizations such as political parties and independent labor unions can be seen as a reflection of the political environment. The only institution which enjoys relative independence from the state is the mosque. This has strongly contributed to the strength of the Islamic movement in the Gulf. The movement is not monolithic. Rather, a number of distinctive groups can be identified within the Islamic opposition. These include figures from within the religious establishment, independent preachers or reformer-Islamists, and the Shia'as. All accuse the Gulf regimes of deviating from the "true" Islam, but they differ in their views as to how government can be put on the right track.

The Shia'a opposition is of special interest for two reasons: doctrinal and geopolitical. A main area of dispute between the Shia'a community and the Gulf states reflects the historical conflict in Islam between the two main sects: Sunnism and Shiaism. All of the royal families are Sunni and some of the Sunnis, both in government and opposition, perceive the Shia'as as heretics, who "must be asked to surrender to the true Muslims and should not be allowed to perform

[25] Giacomo Luciani, "Resources, Revenues, and Authoritarianism in the Arab World: Beyond the Rentier State?" in Rex Brynen, Bahgat Korany, and Paul Noble, (eds), Political Liberalization and Democratization in the Arab World, Boulder: Lynne Rienner Publishers, 1995, p.226.

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their misguided religious rites in public."[26] This perception has complicated the chances for compromise between the Shia'as and the State and, at the same time, made it harder for a genuine cooperation between the Shia'a and other Sunni opposition groups.

In addition to this doctrinal dimension, the Shia'as are the majority in Bahrain, and a substantial minority in Kuwait and Saudi Arabia. In the latter, they represent about 8 percent of the population as a whole: but more important, they are concentrated in the strategic Eastern Province, the oil zone of the country. The oil reserves in Qatif and Ghawar are in places where 90 percent of the population are Shia'as.[27] This heavy concentration in such a strategic location gives the Shia'a opposition additional significance. It is to be remembered that the attack in June 1996, when nineteen Americans were killed, took place in the Eastern Province. Furthermore, the Shia'a communities in the Gulf are close to Iran, which shares with them the same beliefs and a similar resentment towards the royal families.

A second important conclusion focuses on what the opposition groups want. Regardless of the diversity within them, there are some common themes in their demands. In other words, the opposition groups are more or less united in what they are *against*. The list includes governmental corruption and nepotism, economic and financial mismanagement, lack of Islamic purity and acceptance of cultural degradation[28], foreign policy issues such as the close ties with the United States and the peace process with Israel.

A third important question raised by this survey of political developments in the Gulf monarchies since the early 1990s is concerned with the prospects for change. Do the opposition groups have a realistic chance of imposing their demands on the ruling families? Are they powerful enough to impose these demands? The

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[26] James Buchan, "Secular and Religious Opposition in Saudi Arabia," in Tim Niblock, (ed), State, Society and Economy in Saudi Arabia, New York: ST. Martin's Press, 1982, p.118.

[27] Madawi Al Rasheed and Loulouwa Al Rasheed, "The Politics of Encapsulation: Saudi Policy towards Tribal and Religious Opposition," Middle Eastern Studies, Vol.32, No.1, January 1996, p.109.

[28] Andrew Rathmell, "Saudi Arabia Faces More Turbulent Times," Janes Intelligence Review, Vol.8, No.4, April 1996, p.166.

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short answer is No. Throughout the Gulf opposition groups are weak and divided. They have not produced a charismatic leadership or a comprehensive platform to unite all of them and to appeal to the majority of their constituencies. They are growing, but, at the end of this decade, they will still be in their infancy. They cannot be compared with other more developed movements such as the Muslim Brotherhood in Egypt or the Islamic Salvation Front in Algeria. The Islamic movement in the Gulf still has a long way to go. Furthermore, its demands can be seen more in line with reform not revolution. In other words, the tone and objective of the opposition is toward reforming the existing political regimes not overthrowing them. This suggests that for the foreseeable future a drastic change in the political environment in the Gulf is not expected. Instead, a slow and gradual transition is likely to continue. This does not mean that the Gulf regimes are static. They are not. Given the current status of the opposition, if there is to be any early change it is more likely to come from within the royal families.

The Succession Question

The elitist paradigm holds that the elites themselves will be the pivotal actors in any basic change in the nature of a society's policies.[29] Probably more than in any other place in the world, the royal families in the Gulf are by far the main players in their countries' political systems. They have monopoly over the sovereign ministries (interior, defense, and foreign affairs). Furthermore, the history of the Gulf states is literally intertwined with that of the ruling dynasties as the Table 1.3 shows.

This long history of the royal families illustrates the significant role they have played in the political history of their societies, particularly in their transformation into independent nation-states. However, the transition of power from one ruler to another has not always been peaceful. Furthermore, for the near future an intra-family quarrel with uncertain consequences cannot be ruled out for at least two reasons. On one side all the six monarchies lack a

[29] G. Lowell Field and John Higley, Elitism, London: Routledge and Kegan Paul, 1980, p.77.

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mechanism for change. There are no rules for succession. The transformation of power has been accomplished in an arbitrary fashion, and this opens the door for disagreement and conflict. On the other hand, most of the current rulers have been in office for a long period of time. They have been able to secure a high level of stability in their societies under hard conditions including the ups and downs of oil prices and the two Gulf Wars. This can be explained, to a great extent, by their ability to maintain a balance between

Table 1.3
Gulf Monarchies: Dynasties and Rulers

Bahrain	Ahmad Ibn Khalifah	1783
	Isa Ibn Salman Al Khalifa	1961-
Kuwait	Sabah Ibn Jabir	1752
	Jabir Al Ahmad Al Sabah	1977-
Oman	Ahmad Ibn Said	1744
	Qaboos Ibn Said Al Said	1970-
Qatar	Muhammad Ibn Al Thani	1868
	Hamad Ibn Khalifa Al Thani	1995-
Saudi Arabia	Abdel Aziz Ibn Saud	1932
	Fahd Ibn Abdel Aziz Al Saud	1982-
UAE	Zayid Ibn Khalifah	1855
	Zayid Ibn Sultan Al Nuhayyan	1971-

*The first line shows the name of the founder of each dynasty and the date of its foundation. The second line gives the name of the current ruler and the beginning of his reign.

Source: Gawdat Bahgat, "Regional Peace and Stability in the Gulf," Security Dialogue, Vol.26, No.3, Fall 1995, p.328.

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modernity and traditionalism. Nevertheless, for natural reasons the situation is likely to change. Shortly, a younger generation will take over. The new rulers will have grown up under different circumstances than their predecessors. They have different values. It is not clear whether they will be able to maintain the stability of their societies. What is clear is the fact that they add more uncertainty to the future of the Gulf. This uncertainty has already started to show itself in one country after another.

Oman is an embodiment of the unknown future. The current ruler, Sultan Qaboos, has neither brothers nor sons. In his almost three decades in power he has not nominated a designated heir. His death could open the door for a dispute between different factions within the ruling family. In the United Arab Emirates, the question of succession is complicated due to the federal nature of the state. Still, it is likely that the son of the ruler of Abu Dhabi, the largest and wealthiest emirate, will succeed his father as the president of the whole federation.

The question of succession is even less certain in Saudi Arabia.[30] In 1992 the King issued the Basic Law of Government. According to the new law suitability has replaced seniority as the basis for choosing the next king and this opened the door for power-jockeying by potential heirs. The change in leadership in Riyadh gained special attention in late 1995 when King Fahd was seriously ill[31] and temporarily transferred power to his half-brother, Crown Prince Abdullah. Many observers speculate about a potential power-struggle between the Crown Prince on one side and what is known as the "Sudairi Seven" on the other. This latter group constitutes the sons of Abd Al Aziz from his favorite wife, Hassa Bint Al Sudairi. They are: King Fahd; Prince Sultan, Second Deputy Prime Minister and Minister of Defense and Civil Aviation; Prince Nayif, Interior Minister; Prince Salman, Governor of Riyadh Province; Prince Ahmad, Deputy Minister of Interior; Prince Abdel Rahman, Deputy

[30] For more details on the succession question in Saudi Arabia see Simon Henderson, After King Fahd: Succession in Saudi Arabia, Washington DC: The Washington Institute for Near East Policy, 1994.

[31] The nature of his illness has not been officially declared, but it is widely believed that he suffered a stroke.

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Minister of Defense and Civil Aviation; and Prince Turki, former Deputy Minister of Defense.[32]

In early 1996, the King resumed power and put an end to these speculations. But when Prince Abdullah succeeds his brother the change is likely to be in style not substance. Given the fact that both the King and the Crown Prince are in their seventies, the real test to the Saudi regime will come when the next generation assumes power.

This transition of power from one generation to another has already taken place in Qatar. In June 1995 Sheikh Hamad ousted his father, Sheikh Khalifa and declared himself Emir. However, the deposed ruler has not accepted his removal from power and is alleged to be preparing to take back his throne by force. In February 1996, the Doha authorities announced that they had foiled a plot hatched by Sheikh Khalifa to seize power and had arrested 100 people.[33] Since then, the other Gulf rulers have been trying to mediate a peaceful solution between the father and the son. In conclusion, this intra-family power struggle illustrates an important source of threat to the stability of the Gulf monarchies. This internal challenge can be aggravated by external threats from neighboring Iraq and Iran and the efforts to contain them.

Military Security

The Gulf region has one of the world's worst imbalance in the distribution between power and wealth. The richest countries in the region, the six monarchies, are militarily weak and vulnerable to their two strong and less wealthy neighbors: Iran and Iraq. This geopolitical nightmare[34] can be seen as a main reason for the lack of stability in the region. The Gulf War was a turning point in the military arrangements in the area. In recent history, no Gulf state completely swallowed another. The unprecedented international intervention left the impression that the global powers would establish

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[32] Washington Post National Weekly Edition, "The Contemporary House of Saud," January 8, 1996, p.22.

[33] Middle East Economic Digest, "Cover Story: Qatar's Leader Makes His Mark," Vol.40, No.19, May 10, 1996, p.2.

[34] Michael C. Dunn, "Gulf Security: Past and Future," in Ibrahim Ibrahim, The Gulf Crisis: Background and Consequences, Washington DC: Georgetown University Press, 1992, p.204.

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a permanent security system. This has not happened. No durable peace has been created in the aftermath of the Gulf War.

Furthermore, the ease and rapidity of the occupation of Kuwait by Iraq illustrated another important dimension of the Gulf monarchies' vulnerability. Most of them lack strategic depth. The only one large enough to resist foreign invasion is Saudi Arabia. However, the majority of the kingdom's oil fields are located in the Eastern Province, very close to the two powerful neighbors: Iran and Iraq. In order to overcome this vulnerability, the six monarchies have pursued different defense strategies aiming at increasing their military capabilities and deterring potential enemies. These strategies can be labeled as self-reliance, regional collective security, and dependence on the West, particularly the United States.

The strategy of self-reliance is constrained by demographic, political, and social obstacles.[35] All the six monarchies suffer from a shortage of man-power in comparison with their neighbors. Their population pool is not large enough to match that of Iran and Iraq. In order to overcome this obstacle different policies have been considered. Foreign nationals have served in the military in some of the Gulf states – particularly in Oman and the UAE – but they have not been proved to be a sufficiently reliable source to ensure national security. Another policy which has been recently tried in the UAE is to train women to serve in various paramilitary functions.[36] In addition to this apparent lack of indigenous manpower, other political considerations play an important role in determining the size and structure of the armed forces. Most of the six Gulf states avoid universal conscription. A full mobilization of the population might fuel demands for popular participation. Furthermore, some of these states practice a "selective recruitment" policy under which the number of Shia'as who join the military and are promoted to high-ranking positions is watched carefully. This is very important in some countries such as Bahrain, Qatar, and the UAE, where a primary

[35] F. Gregory Gause, Oil Monarchies, New York: Council on Foreign Relations Press, 1994, p.124.

[36] Saleh Al Mani, "Of Security and Threat: Saudi Arabia's Perception," Journal of South Asian and Middle Eastern Studies, Vol.20, No.1, Fall 1996, p.87.

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responsibility of the military is to serve as an internal policing force, and their loyalty to the political system should not be in doubt. Similarly, the armed forces of the UAE are not fully integrated. There is some tension between the loyalty to the federal government and that of the individual emirates.

These internal problems within each of the six monarchies are further complicated by the lack of trust among the six monarchies. Historically, some of the royal families have had "not very friendly" relations with their counterparts. Over the years, boundary problems have raised the level of tension between the different Gulf states. This shaky environment is worsened by the fear that the five Gulf

Table 1.4

Western Dependence on Oil Supplies from the Gulf (1985-1995)

Country	Total Oil Imports	Imports from the Gulf	%
US	4.286	0.304	07.92
	8.033	1.562	19.44
OECD	7.381	2.560	34.68
(Europe)	7.246	3.357	46.32
Japan	4.308	2.533	58.79
	5.709	3.980	69.71

* The first line cites figures for 1985 and Second line 1995.
* Columns 2 and 3 are millions of barrels per day.

Source: Energy Information Administration, International Petroleum Statistics Report, Washington DC: US Government Printing Office, May 1996, pp. 49-51.

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Table 1.5

Gulf Arms Purchases from the West (1990-1997) (in millions of dollars)

Country	Bahrain	Kuwait	Oman	Qatar	S. Arabia	UAE	Total
Australia		0004					0004
Austria					0005		0005
Canada					0944		0944
France		0021	0132	0462	0690	1891	3196
Germany	0005				0004	0279	0288
Italy		0043				0043	0086
Netherlands	0018		0019	0036		0228	0301
Spain			0025				0025
Sweden						0048	0048
Switzerland			0010		0122		0132
UK		0706	0749	0249	2494	0760	4958
USA	0261	3451	0090		9813	0549	14164
Total	*0284*	*4225*	*1052*	*0747*	*14072*	*3798*	*24151*

Source: Pieter Wezeman, SIPRI Arms Transfer and Arms Production Project, Stockholm, 1998.

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states have of being dominated by their large and strong neighbor, Saudi Arabia. Given this uneasy co-existence, the development of genuine military cooperation between the six monarchies has proven difficult. The Gulf states have tried to create a strong united military force called Peninsula Shield, stationed at Hafr Al Batin in northeast Saudi Arabia, to defend them from any foreign aggression, but their success has been very modest. They have disagreed on the size, equipment, leadership, and many other issues, and it is highly unlikely that the Gulf rulers will be able to create a strong united indigenous military force in the foreseeable future.

Therefore, the six Gulf states tried to forge an alliance with two regional powers, Egypt and Syria, in order to contain any threat from Iraq or Iran. It is to be remembered that both Cairo and Damascus participated at least nominally in the war to expel Iraq from Kuwait. Shortly after the war, in 1991, the foreign ministers of the six Gulf states, Egypt, and Syria signed an agreement called the Damascus Declaration. According to this accord, the Egyptian and Syrian armies were supposed to defend the six monarchies in return for generous economic assistance. However, for many reasons the Declaration was never implemented. First, the Gulf rulers had second thoughts about making a financial commitment to Cairo and Damascus. Second, they saw a potential for domestic unrest if they allow the Egyptian and Syrian armies to be stationed there for a long period of time. Third, the Gulf War proved that the real military power which liberated Kuwait and protected Saudi Arabia was Western. After the war, the Western countries have shown their continuing ability and willingness to defend the Gulf and this left little reason to replace them by Egyptian and Syrian forces. Finally, Iran expressed strong opposition to any military alliance with outside powers. It became clear that any framework for Gulf security which excludes both Iraq and Iran has the appearance of an alliance against one or both of these Gulf powers, which may provoke more problems than it solves.[37] These shortcomings of

[37] Rosemary Hollis, "Whatever Happened to the Damascus Declaration? Evolving Security Structures in the Gulf," in M. Jane Davis, (ed), Politics and International Relations in the Middle East, Aldershot, UK: Edward Elgar, 1995, p.58.

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the Damascus Declaration have accelerated and intensified the adoption of the third approach towards Gulf security: dependence on the West.

In February 1996, Congressman Lee Hamilton, a ranking member of the House International Relations Committee said, "Not too many years ago, we were talking about a force over the horizon. The countries of the Gulf did not want us there, but they wanted us nearby. No longer.[38]" This statement reflects a significant development in the relationship between the six Gulf states and Washington. For most of the decades preceding the Gulf War the United States relied on regional powers to secure oil supplies from the region. The American presence in the area was limited. The closing years of the Iran-Iraq war witnessed a growing American role in defending the Gulf states. After the defeat of Iraq, it became apparent that the American military mission in the Gulf is not a short-term one. Washington was invited by the Gulf rulers to stay in the region in order to prevent any aggression from the two strong neighbors, Iran and Iraq. The two sides, the US and the Gulf monarchies share the same interest: oil, a strategic commodity for the former and the main source of national income for the latter. It is worth noting that Western dependence on the Gulf oil has deepened in the last decade as Table 1.4 illustrates.

As the figures show, Western dependence on, and interest in, the Gulf has been on the rise. In order to protect the source of this strategic commodity, Western countries, particularly the United States, have assumed the responsibility of defending the region. Since the Gulf War this growing Western military role has been felt in many ways. Washington, London, and Paris have signed defense cooperation agreements with the Gulf states which allowed them, among other things, to pre-position military equipment in the region. In order to avoid inflaming its Islamist opposition, Saudi Arabia has refrained from signing a formal agreement but has been working closely with Western countries. Equally important to these

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[38] Lee Hamilton, Brian Atwood, Peter Gubser, and Sara Roy, "Symposium: Development Assistance to the Middle East: Critical Perspectives," Middle East Policy, Vol.4, No.4, October 1996, p.15.

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agreements are the arms purchases. Table 1.5 demonstrates the Gulf dependence on arms purchase from the West.

The figures show the tremendous amount of money spent on arms purchases in the first half of the 1990s. Naturally, the countries which led the coalition against Iraq: United States, Britain, and France were the main suppliers of arms to the region. The countries which were effected the most by the war: Saudi Arabia, Kuwait, and United Arab Emirates bought more weapons than the others. However, given the economic problems the Gulf states have faced for the last several years due to the stagnation of oil prices, new orders have been suspended and payments were stretched out.

In closing, a number of conclusions can be drawn from the preceding discussion. First, these huge arms deals were made to achieve a two-fold goal. On one side they raised the defense capabilities of the Gulf states. On the other side, the increased the integration of the Gulf security into the national interests of the West. Put differently, the cash paid for these weapons generates jobs and adds badly-needed financial resources to the Western economies. Thus, increasingly the well-being and prosperity of an important economic sector in the West are tied to the security of the Gulf. This link between military expenditure and economic growth has recently taken a new dimension in what is known as "Offset Programs." These arrangements require sellers of weapons to reinvest a percentage of all outlays in economic projects within the contracting country.[39]

Second, the transfer of these big ticket and high technology weapons is not meant to make the Gulf states able to defend them selves. Given the huge demographic imbalance between them and their two powerful neighbors, it is not expected that they will be able to resist a military attack by themselves. Rather, these advanced weapons should slow down any aggressor until Western countries come and fully project its military power. Third, the Gulf War has confirmed the presumption that Western military intervention is a necessity to maintain the status quo in the region. For the last few years individual Gulf states have shown more interest in consolidating their bilateral military cooperation with Western countries than in

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[39] Saleh A. Al Mani, "Gulf Security and Relations with Our Neighbors," Security Dialogue, Vol.27, No.3, Fall 1996, p.298.

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developing a collective regional security system. This trend is likely to endure in the foreseeable future.

Conclusion

Since the Gulf War the six monarchies have experienced significant changes. This transitional stage in the Gulf history is pregnant with many socio-economic forces which are moving in different, and sometime opposite, directions. However, it is important not to prejudge these movements. Currently, the six Gulf states do not face a serious crisis in any sense. Economically, they are less rich than they were a decade ago, but they are not poor. Politically, they are not threatened by any popular upheaval. The domestic opposition is growing but it has a long way to go before posing a real threat. Militarily, the Gulf states face challenges from their powerful neighbors, but the United States, the only remaining superpower, is there to protect them. Washington has both the capability and the will to defend the six monarchies for many years to come.

This rosy picture shows half the truth. The fact that they do not confront a serious crisis does not eliminate potential threats. Social, economic, and political changes inside and outside the Gulf make the future less certain. The main challenge facing the royal families in the Gulf is to figure out the appropriate way to respond to these changes at the right time before it becomes too late and too painful.

For the foreseeable future, oil will remain the backbone of the Gulf economies and the generous government subsidies will continue, albeit at a lower level. Meanwhile, the attempts to implement structural adjustments are likely to continue. The young and growing population is a constant pressure to create more jobs. The private sector can generate more productive jobs than the government. Furthermore, the depleted oil resources in some states, notably Bahrain, provide additional incentives for economic reform. This gradual opening of the economy is likely to facilitate and accelerate the process of political liberalization. The growing integration of the Gulf societies into the global system is already increasing their exposure to mass media and liberal, non-traditional values. The rising demands for popular participation cannot be ignored and neglected for ever. In the next few years the quarrel between the forces of inclusion and those of exclusion will intensify. The more educated

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elements of the population will be more aggressive in rejecting a traditional and tribal form of government.

These governments will continue to rely on the Western powers to protect them from Iran and Iraq. This dependence on foreign troops has has a political cost. Some opposition groups reject the Western presence, particularly in Saudi Arabia. But the need for Western protection is not likely to decrease in the foreseeable future: the prospects for a durable peace are not there. The strategic, doctrinal-ideological and historical distance between the Islamic regime and the Baathist leadership on the one side, and the traditional monarchies on the other, will never totally close. A major challenge for the two sides is to develop a working relationship. An effective state of peace involves much more than the absence of war.

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Man
Between Past and Future

BRUNETTO CHIARELLI

University of Florence, Italy

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Could a Pan-Korea Development Corporation Promote Economic Cooperation between South and North Korea?

Sungwoo Kim
Northeastern University

With the possibility of a North-South peace treaty between the two Koreas becoming a real possibility at some time in the future, considerable discussion has arisen as to be the best way in which the more prosperous South could assist the North toward an economic recovery which would both promote unification and be a necessary condition of unification. The author here seeks to examine the various possibilities and discuss relative merits.

Key Words: Korea, unification, economic aid, privatization.

Recently, South Korea offered large-scale economic assistance to North Korea if the North would agree to a dialogue leading to a peace treaty. As expected, the North did not respond. Yet, its dwindling economy,[1] hampered by significant reductions in economic aid from Russia and China, may leave North Korea little choice but to accept the offer in the near future. Alternatively, a sudden or gradual unification of the two Koreas under South Korean tutelage will require the South to provide important economic assistance to the North. It is imperative, therefore, to start contemplating the most efficient method of economic cooperation between the two Koreas.

North Korea, with badly dilapidated economic structures, offers abundant and highly profitable investment opportunities, especially in its infrastructure.[2] However, these opportunities have been created and preserved by the enormous sacrifices of ordinary people in the North in terms of perpetual sub-standard living conditions. To a lesser degree, sacrifices were also imposed upon the ordinary

[1] For the current economic condition in North Korea, see for example, Sungwoo Kim, "North Korea's Economy Analyzed Through Its Foreign Trade," *Vantage Point*, Vol. XX, No.8, August 1997, pp. 27-39.

[2] See, Marcus Noland, "Why North Korea Will Muddle Through," *Foreign Affairs*, Vol. 76, No. 4, July/August 1997, pp. 105-118.

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people in the South either directly by the devastation of the Korean War or indirectly through welfare losses resulting from the unavailability of half of Korea. Therefore, we posit that the fundamental objective of economic cooperation between the two Koreas should be to maximize economic benefits for all, especially for the ordinary people of both North and South Korea, rather than a small subset of the population fortunate enough to have funds for investment in the North. With this tenet, we will evaluate the relative efficiencies of six conventional forms of economic cooperation. Finding that none of them satisfies our basic objective, we propose a new vehicle for economic cooperation.

North Korea's Current Economic Malady

A search for the efficient method of economic cooperation requires a basic knowledge of the major defects in North Korea's economy so that the proposed cooperation will be able to eliminate these defects.[3] We discuss only several obvious major defects.

First, the prevalence of *Juche*, or the self-sufficiency policy, has mandated the maximum use of indigenous materials and technology. Coupled with the constant emphasis on speed of accomplishment, this mandate compelled a widespread improvisation with a crude common sense, rather than a scientific technology, even on major projects. Such crude technology has an absolute limit and may work for a short run, but it is totally inadequate and inefficient for a long run. Factories built and operated with improvised technology ran for a while with an ad hoc system of repairs and replacement. Eventually they reached a point of non-rehabilitation, and most production came to a standstill.

Second, North Korea's rigid central planning assigns annual production quotas to individual factories, without detailed analysis of direct and indirect demands for their products by the rest of the

[3] For further discussion on this point, see Sungwoo Kim, "Agricultural Policy and Grain Production in North Korea," *Journal of Social, Political and Economic Studies*, Vol. 22, No. 1, Spring 1997, pp.23-38.

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economy.[4] Quotas specify only the quantity, not the quality, of products. To meet an assigned quota on time, quality was seriously compromised, with the result that the amount of usable products was much smaller than the amount delivered. Consequently, the total output of certain sectors was grossly inadequate to support the rest of the economy, and production halted due to the lack of raw materials. Practically in every multi-year economic plan for North Korea, projected target years had to be postponed by several years, which the North has referred tp as adjustment periods, due to the serious imbalance in output between individual sectors of the economy.

Third, due to a strict pyramid chain of command, there is no accountability for policy failures. All major economic policies are dictated by the leadership at the top, often in the form of instant decisions during field trips. Those below the top simply implement the assigned policy devoid of accountability; the leadership at the top can never be presumed to make a mistake, and therefore, nobody ultimately is to be held responsible for a policy failure. Worse yet, since the failure of a leader's policy can never be acknowledged and rectified, new policies and projects must envelop the existing defects of previous policies, with the result that flaws magnify and multiply over time.

Fourth, the existing system significantly discourages economic incentives for individual workers. All workers in North Korea are considered government employees with fixed salaries and assigned production quotas. The quota is determined annually on the basis of the previous year's performance. On the one hand, over-fulfillment of the assigned quota produces temporary benefits, often in the form of meaningless badges or titles; on the other, it engenders the serious cost of inviting a higher future quota, the failure of which imposes a severe penalty. Thus, workers are content with fulfilling the current quota, and plant managers actively lobby for a lower annual quota.

Finally, potential economic paralysis due to these system failures has been so far mitigated by an infusion of massive economic aid

[4] Under central planning, vested interests of individual departments to ensure the accomplishment of assigned production quotas tend to result in a much higher capital-output ratio than the optimum, and perpetuate enormous production inefficiency. United Nations, *World Economic and Social Survey 1996*, New York, 1996, Ch.VI.

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from the former U.S.S.R. and China. However, this aid was in fact a curse in disguise. Like an infant industry syndrome, economic aid continued or increased as long as North Korea's economy remained underdeveloped; and, consequently, the aid has prolonged the economic inefficiency of the North.[5]

The sudden collapse of the socialist world with a significant reduction in aid dealt a serious blow to North Korea's economy. The immediate and visible impact of this predicament was famine due to grain shortage, which the North attributed to natural calamity, yet in reality was caused by chronic failure of the system that was hidden so far by foreign aid. For all practical purposes, North Korea's economic structure has deteriorated beyond a point of rehabilitation through piecemeal patch-works. The only solution is to revamp the current structure with a modern system based on rational economic principles. This will be the second major objective of the proposed economic cooperation between the two Koreas.

The Relative Efficiency of Alternative Forms of Possible Economic Cooperation

We reiterate the basic objective, other than the obvious desirability of reducing the potential military threat of war between the two Koreas, of any proposed economic cooperation is to ensure that maximum benefits accrue to the ordinary people of both North and South Korea, and maximum revamping of the current economic structure of North Korea with a modern economic system. With these tenets, we evaluate, in ascending order, the relative efficiencies of six conventional forms of economic cooperation.

The first form can be direct aid in goods and services from the South to the North. As mentioned, this type of aid from the former U.S.S.R. and China has prolonged the mismanagement of the North Korean economy. This form of direct aid should be used only for a temporary and specific purpose, such as grain assistance based on purely humanitarian considerations, and should never be used for the

[5] Many empirical studies find either no or a negative correlation between the amounts of economic aid and economic growth of the recipient countries. See Carol Graham and Michael O'Hanlon, "Making Foreign Aid Work," *Foreign Affairs*, Vol. 76, No.4, July/August, 1997, pp.96-104.

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purpose of economic development. If this form of aid is intended to encourage North Korea's superficial participation, without its sincere desire, in a peace dialogue, then as North Korea's economy regresses in the future the required amount of aid would have to increase correspondingly. The moment the South discontinued such aid for lack of progress in the peace talks, tension in the Korean peninsular would revert to the original state of belligerence without any tangible benefits deriving from the past aid. In addition, such assistance benefits only a small segment of the population in the North, mainly the highly visible and easily verifiable urban dwellers. In the North, a choice of occupation as well as residency is strictly controlled by the government.[6] Urban dwellers with cultural and educational amenities are in fact the privileged class of the society. Benefitting mainly urbanites at the sacrifice of less visible rural dwellers does not satisfy our stated tenet of economic cooperation. An additional technical difficulty is North Korea's extreme sensitivity about the identity of donor countries, especially South Korea. In the past, the North insisted that all identifying labels be removed, with the South steadfastly refusing compliance. This contention may seriously complicate the intended aid in goods and services.

The second form of economic cooperation could be that the South provide an investment fund, to be managed by the North for the improvement of its civilian economy – similar to South Korea's economic aid to the former Soviet Union.[7] This form would be politically acceptable to the North, but has two major inherent problems. In the totally government-controlled economy of the North, it is impossible to delineate between the military and the civilian sectors, except the obvious ones such as armament production. For example, such seemingly innocuous products as clothes, shoes or bicycles destined to the civilian sector can be quickly transferred by

[6] In North Korea, occupation and residency of an individual is strictly controlled by the government. For details, see Philo Kim, *Two Koreas in Development*, New Brunswick, N.J.: Transaction Publishers, 1992.

[7] For a fascinating account on how South Korea and Russia opened a formal diplomatic relationship with $4 billion in economic aid from South Korea to the Soviet Union, see Kim Hakjoon, "The Process Leading to the Establishment of Diplomatic Relations Between South Korea and the Soviet Union," *Asian Survey*, Vol. XXXVII, No. 7, July 1997, pp. 637-651.

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the government to the military.[8] To a certain degree, such transfer can also be effected in South Korea. Yet, this action requires a congressional approval after lengthy public debate. Unless the nature of proposed investment projects is known and can be monitored in great detail, a measure which the North will strenuously object to, any economic assistance from the South in order to mitigate the military threat from the North may in fact enhance that threat at a future date. Next, letting the North manage the new investments with its current managerial expertise and system almost guarantees the failure of the new investment and a total waste of funds, as evidenced by the current debacle of North Korea's economy. North Korean leadership, completely indoctrinated into its *Juche* policy and rigid central planning, is not willing to adapt to the rational decision making of a modern economy.

The third form of economic cooperation could be that South Korea, with the advice of North Korea, unilaterally decide and supervise chosen investment projects in the North. This kind of subservient relationship may not be acceptable to the North. Even with certain modifications palatable to the North, government's direct involvement in the civilian economy is the least efficient method of management, as evidenced by the current trend of deregulation in many industrialized countries.[9] The success of investment in a totally untested area such as North Korea requires vision and risk-taking entrepreneurship with potentially very high personal consequences.

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[8] One estimate places North Korea's defense budget up to 27% of its Gross Domestic Product. Compared to 4% of the defense budget of South Korea out of its GDP, the military expenses of North Korea enjoy a huge part of its economy, and it will not be easy to delineate between military and civilian expenditures in North Korea. See, Park Jin, "North Korea's Fiscal Problems: Are there any solutions?" in *North Korea:Uneasy, Shaky Kim Jong-il Regime*, Seoul, Korea: Naewoe Press, 1997, pp. 197-249.

It may be informative to have a glimpse of defense budget of the former U.S.S.R. Its defense budget is top secret information known to only three people in the country. According to its former president, the true defense budget was 40%, rather than the publicly alleged 16%, of the total state budget. Also 20 billion out of 25 billion rubles earmarked for scientific research was spent for military purpose. See Mikhail Gorbachev, *Memoirs*, New York: Doubleday, 1995, p. 215

[9] In addition, corruption by government workers tends to be rampant in a developing market-oriented economy such as China. Hilton Root, "Corruption in China, Has It Become Systematic?", *Asian Survey*, Vol.XXXVI, No. 8, August 1996, pp. 741-757.

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Government employees lack vested personal interests in the success of an investment project. To them, failure of the project brings a much more severe personal penalty than the reward associated with success, and they tend to act very cautiously. This behavior is totally unsuitable to pioneering investment projects in North Korea.

The fourth form of cooperation could be the creation of a new agency staffed by an equal number of representatives from the South and the North, with each side having equal voting as well as veto power on investment decisions. This form might be politically amenable to the North, yet is potentially as absurd as a ship with two captains with significantly different destinations yet with equal authority of command. In fact, North Korea has always favored this type of unification under the proposed name Kyro Republic in which a new government would be formed with an equal number of representatives and voting rights from the South and the North. South Korea, with a population twice as large and its economy far stronger than that of North Korea, rejected this suggestion of equal representation in government.

In the fifth form of cooperation, economic experts from neutral countries might be invited to initiate and manage investment projects in North Korea mainly funded by South Korea. This proposal contains two serious problems. First, due to rapid globalization of the world economy, it is almost impossible to find countries or individuals totally neutral to the Korean economy. South Korea's successes in ship building and steel production had a seriously adverse impact upon the corresponding industries in Italy and Poland. In a recent Tumen River development proposal by the supposedly neutral United Nations, the discord over vested interests by directly affected nations, namely North Korea, China, and Russia, almost ruined the project. Actual project being undertaken is much smaller in scope and imagination than the one originally envisioned.[10] Second, the suggested form is a direct insult to South Korea's entrepreneurship. Under its tutelage, South Korea was able to accomplish one of the highest economic growth rates in the world. The suggested form is tantamount to substituting these entrepreneurs

[10] See, Daniel Adrich, "If you build it, they will come: a cautionary tale about the Tumen River Projects," *Journal of East Asian Affairs*, Vol. 11, No.1, Winter 1997, pp. 299-326.

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with economists and managers from other countries with less vested interests and competence.

In order to maximize the participation of South Korean entrepreneurs, the sixth form of economic cooperation could take the form of joint ventures between conglomerates of South Korea and the government of North Korea under tax incentives or guaranteed loss reimbursement by the South Korean government. In fact, on a small scale such joint ventures have already been undertaken with substantial success. This form is superior to the other forms discussed so far; yet it does not maximize our basic objective of economic cooperation between the South and the North. The principle of a market economy dictates that the South Korean conglomerates would concentrate their investments in North Korea into the most profitable, though perfectly legal and morally justifiable, projects with short term horizons.[11] They would likely shy away from investments in basic infrastructure with significant externalities and a long-run horizon. In addition, benefits from investments, which could be enormous, would accrue only to a small segment of the population in the South fortunate enough to own shares in the participating conglomerates, as well as to people in the North directly involved in the projects. This form of cooperation would not maximize the benefits for ordinary people in the North and the South, in addition to maximizing investments in the infrastructure of the North.

The Creation of a Pan-Korea Development Corporation

So far we have assumed that economic cooperation would be carried out by the two independent countries of South and North Korea. We also have to consider a remote possibility that the two Koreas would be unified under the tutelage of South Korea. In this case, the proposed economic assistance will have to assume an additional role of preventing a highly disruptive occurrence after the unification. In South Korea, speculation on real estate had been one of the most profitable investments. At the moment of unification, the Southerners with means will attempt to purchase practically every

[11] Kelley K. Hwang, "South Korea's bureaucracy and the informal politics of economic development," *Asian Survey*, Vol.XXXVI, No. 3, March 1996, pp. 306-319.

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inch of the Northern land even with its site unseen. Eventual commercial development of the land will require a massive relocation of current residents on the land or worse, denudation of ancestral burial sites, with the resulting enmity of Northerners against the South. To avoid this, initial pivotal investments in the North after unification must be carried out by a single entity under the mandate of the stated fundamental objectives of economic cooperation.

While any form of aid to North Korea would inevitably be subject to the terms of a unification treaty, we would propose the establishment of a quasi-public agency tentatively called the Pan-Korea Development Corporation, with sole jurisdiction for the generation of funds for and investment decisions in the North in the early stage of unification. The total population of Korea is composed of 45 million in the South and 24 million in the North. The corporation would create 69 million of its shares, which would be offered on a voluntary basis one share each to every citizen in the South at $100 per share and to every citizen in the North without charge *if* the Northerners agree to remain in the North. To insure full participation by every citizen of the South, the central bank of the South will lend, with the proposed share as collateral, up to $100 to anyone who needs the money to purchase the share. This will generate an initial fund of at least $4 billion for exclusive investments in the North, mainly in new infrastructure, with employment priority given to people in the North.[12] Profits accruing from user fees, especially from commercial users, charged on the new infrastructure will be equally distributed to all holders of the shares both in the South and the North. The remuneration for directors of the proposed corporation will be determined solely by the economic success of new investments in the infrastructure of the North.

At this point, one can legitimately argue that the proposed investment of $4 billion by the PKDC would be trivial in comparison with the several hundred billion dollars of investment that were purported to be required by the South for North Korea after

[12] See, Marcus Noland, Sherman Robinson, and Monica Scataska, "Modeling Economic Reform in North Korea," *Journal of Asian Economics*, Vol. 8, No. 1, Spring 1997, pp. 15-38. In addition, a unified Korea should seek various international funds for economic development. See, Robert A. Manning, "The United States and the Endgame in Korea,", *Asian Survey*, Vol. XXXVII, No. 7, July 1997, pp. 597-608.

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unification.[13] Lest this allegation of the enormous investment requirement dispirits the aspiration of the PKDC, the validity of the allegation needs to be examined carefully.

First of all, the PKDC is designed to provide only the nucleus of future investments in the North, concentrating mainly on its infrastructure and continuously being re-invested in new projects. The PKDC will be complemented by parallel investments with funds from world financial institutions for economic development as well as from private sources for purely commercial enterprises.

Secondly, the allegation of an enormous investment requirement is based on three unfounded assumptions. First, implicit in this allegation is a fear that without a significant and expeditious reduction in the income gap between the two Koreas after unification, there would be a detrimental mass labor migration from the North to the South. That this can be prevented is revealed by the recent experience of the German unification in which the expected mass exodus of people from east to west was avoided due to governmental policies.[14] No doubt, there will be a certain amount of non-economic migration in either direction immediately after unification. However, for long term economic migration, a mere difference in incomes between any two places does not provide sufficient incentive. Economic migrants evaluate potential incomes, i.e., actual income discounted by the probability of acquiring it, of places of origin and destination, and only when the difference in the potential income is greater than actual cost of migration, including economic as well as psychic costs of separation from family, friends, and familiar surrounding, is migration likely to ensue.[15] To wit, even in South Korea itself, there are substantial income differentials between industrial urban centers and agrarian rural areas. Yet, rural-

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[13] One study suggests that South Korea may need to invest between $600 and $857 billion worth of new investments in North Korea after unification. Noland, Robinson, and Scatasta, *op. cit.*

[14] After German unification, the feared mass migration from East to West Germany did not materialize. See Gerlinde Sinn and Hans-Werner Sinn, *Jumpstart; The Economic Unification of Germany*, Cambridge, Mass: The MIT Press, 1992, p. 8.

[15] For further discussion on this point, see Sungwoo Kim, "Interregional Economic Migration: Some Theoretical Considerations, Part I and II: Comment," *Journal of Regional Science*, Vol.17, No.1, April 1977, pp. 117-123.

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urban labor migration ceased to be a major economic problem. After unification, if the people in the North are accorded employment priority in new investments, their potential incomes will hopefully be significantly bolstered and economic migration to the South would then be greatly curtailed.

Second, it is unrealistic to expect to significantly reduce income gaps between regions within a short period of time. Even in the richest countries in the world, such as United States and Japan, there exist substantial regional income gaps without serious detrimental effects. Especially in Korea where North and South have maintained totally opposite economic systems for more than a half century, it will require at least a decade to achieve an appropriate integration of the two systems without seriously negative side effects. What is important is not that an income gap will exist during this transitional period, but that the gap be narrowed by sincere efforts of the unified Korea on behalf of the people in the North.

Third, the notion that on unification the South will have to bear all responsibility for rejuvenating the Northern economy is somewhat condescending to the people in the North. As Hirshman convincingly demonstrates in his analysis of economic development, every country underestimates its true economic potential. Only those countries, including South Korea, which were willing to take seemingly insurmountable risks were able to develop their economies.[16] The North Koreans are a well-educated and highly-motivated people, and should not need to be treated like welfare recipients in the unified Korea. Given the economic freedom then with the aid of the initial investment fund, as well as economic guidance and cooperation from the South, the North should be able to develop its economy on its own momentum.[17] Especially if the South will guarantee markets, either domestic or overseas, for products from the North, we may

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[16] Albert O. Hirschman, *Development Projects Observed*, Washington, D.C.:Brookings Institution, 1967. For the "hiding hand" in action, see, Elliot Marseille, "Intraocular Lenses, Blindness Control, and the Hiding Hand," in Lloyd Rodwin and Donald A. Schon, (eds.), *Rethinking The Development Experiences*, Washington, D.C.:Brookings Institution, 1994, pp. 147-175.

[17] A unified Korea could greatly benefit from the experience of German unification. For example, right after unification, Germany established the Treuhandanstatt to facilitate the transfer of state owned firms in East Germany into civilian management. For further discussion, see Sinn and Sinn, *op. cit.*

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expect enough entrepreneurs to emerge in the North to create a sustained growth through a ripple effects.

Therefore, a proposed investment of $4 billion, which may not be sufficient to radically transform the Northern economy overnight, in a Pan-Korea Development Corporation of the kind I have described would provide a powerful initial thrust for gradual and sustainable development of the North after unification.

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The Ambiguous Status of the U.S. Insular Territories

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The author surveys the anachronistic constitutional status of the diverse U.S. insular "territories" and finds that these vary widely, many of them having been granted extra-Constitutional privileges superior to those possessed by the states of the Union.

Key Words: U.S. Territories, U.S. Constitution, U.S. Nationality, International Treaties

Historically, a U.S. territory was a land with a population too small and scattered to govern itself as a state and therefore was administered by the federal government. But most importantly, a U.S. territory was considered to be, above all else, a temporary status. Based upon the principles of the Northwest Ordinance of 1787 – principles implemented by the federal administrations of George Washington, John Adams, Thomas Jefferson and James Madison – States were to be carved out of existing territories and admitted to the Union on the basis of equality with existing states. This was the case with the Old Northwest Territory, the Old Southwest Territory, Louisiana Territory, Oregon Territory, and Mexican Cession.

Since a territorial status was temporary, territories which did not become States either became independent countries – Cuba in 1903 and the Philippines in 1946 – or were transferred, in whole or in part, to a foreign power. For example, the northwest portion of the Louisiana Territory (1818),[2] the northeast portion of the State of Maine (1842),[3] the northern half of the Oregon Territory (1846),[4] and one-third of the Alaskan panhandle (1903)[5] were transferred to the United Kingdom; Okinawa (1972) was transferred to Japan,[6] and

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[1] Mr. Fallon is the author of *Deconstructing the United States*, published in 1998 as Monograph Number 27 in the *Journal of Social, Political and Economic Studies Monograph Series.*

[2] Convention of October 20, 1818.

[3] The Webster-Ashburn Treaty of August 9, 1842.

[4] The Buchanan-Pakenham Treaty of June 15, 1846.

[5] The Alaska Bonndary Tribunal Award of October 20, 1903.

[6] U.S.-Japan Treaty of May 15, 1972.

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TABLE ONE

Final Status of Territories Not Achieving Statehood

Name of territorial possession	Date U.S. relinquished its claim	Party with whom U.S. negotiated	Final Political Status
Northwest portion of Louisiana Territory	Convention of October 20, 1818	United Kingdom	Ceded territory north of the 49th parallel in exchange for land south of that parallel in the Red River Basin.
Northeast portion of State of Maine	The Webster-Ashburton Treaty of August 9, 1842	United Kingdom	Approximately half disputed territory ceded to the British colony of New Brunswick
Oregon Territory	The Buchanan-Pakenham Treaty of June15, 1846	United Kingdom	Half disputed territory ceded to British North America
Cuba	Treaty of May 22, 1903	Cuban nationalists	Independence
Alaska pan-handle	Alaska Boundary Tribunal Award of October 20, 1903	United Kingdom	One-third of disputed land awarded to the British North American colony of British Columbia

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Philippines	The Tydings-McDuffies Act took effect on July 4, 1948	Filipino nationalists	Independence
Bonin Islands, Volcano Islands, (Iwo Jima), and Marcos Islands	June 26, 1968	Japan	Part of Japan
Swann Islands	November 22, 1971	Honduras	Part of Honduras
Okinawa, Ryuku Islands, and Daito Islands	May 15, 1972	Japan	Part of Japan
Panama Canal and Canal Zone Territory	April 18, 1978 to be implemented by 1999	Panama	To become part of Panama
25 Islands in South Pacific	Treaty of February 7, 1979, ratified August 1983	Tuvalu	Some islands became part of Tuvalu
	Treaty of September 20, 1979, ratified August 1983	Kiribati	Some islands became part of Kiribati
	Treaty of December 2, 1980, ratified August 1983	New Zealand and the Cook Islands on behalf of Tokelau	Some islands became part of Tokelau
Quita Sueno Bank, Rocador, and Serrano	Treaty of September 17, 1981	Colombia	Part of Colombia

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the Panama Canal and the Canal Zone Territory (1978) were transferred to Panama.[7] (See Table 1, "Final Status of Territories Not Achieving Statehood.") However, these historical principles have not been applied to the present-day U.S. territories.

Today's Insular Territories

As a result of the Spanish-American War of 1898, the United States acquired territories, such as Cuba and the Philippines, which were deemed unlikely to become States because they were geographically remote and/or their cultures differed significantly from that of the United States. To determine the administrative status of such possessions, the U.S. Supreme Court promulgated the "doctrine of incorporation" in a series of rulings between 1901 and 1922 known as the "Insular Cases." According to these court decisions, the U.S. Constitution does not fully apply to a U.S. territory until it has been "incorporated" into the Union. However, the Court never precisiely defined when "incorporation" might be deemed to have occurred. While the "doctrine of incorporation" granted Congress vast powers to administer U.S. territories, it did not alter the temporary nature of a territorial status, and did not recognize any permanent political status other than Statehood.

All this changed when Congress radically altered the political structure of the United States, first with Puerto Rico in 1952, then with the creation of the United Nations Strategic Trust Territory of the Pacific Islands in 1986. Claiming the power, under the "doctrine of incorporation" and Article IV, Section 3 (2) of the U.S. Constitution, "to dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States", Congress replaced the well-defined Union of States – by which each State, regardless of territorial size, population, or date of admission, possessed equal powers – with a ambiguous political system. The "Union" now consists of a political collation of entities of *unequal* power, comprising the 50 States and a hierarchy of eight territories. This is illustrated in Chart 1, "The General Legal Categories Constituting the Hierarchical Political Structure of the USA."

[7] U.S.-Panama Treaty of April 18, 1978, to be implemented by 1999.

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The Political Hierarchy within the U.S. Territories

The U.S. territories consist of (in descending order of political power): three "free associations", the Federated States of Micronesia, the Marshall Islands and Palau, whose inhabitants are citizens of their respective republics, not the United States; two "commonwealths", Puerto Rico and the Northern Marianas, whose inhabitants are U.S. citizens but who in the latter case enjoy local control over immigration and land ownership; two "unincorporated and organized" territories, Guam and the U.S. Virgin Islands, whose inhabitants are U.S. citizens, and one "unincorporated and unorganized" territory, American Samoa, whose inhabitants are legally U.S. nationals but who enjoy the same rights over immigration and land as Northern Marianas islanders – rights legally denied U.S. citizens of the 50 States. There are, in turn, additional hierarchies within these "free associations" and "commonwealths." These are listed in Table 2, "Hierarchy of Insular Territories".

"Free Associations"

"Free association" is recognized by the United Nations as an alternative to independence for a former trust territory. It enables the local population to enjoy a maximum degree of self-government – including representation in international organizations and the right to negotiate and sign treaties – while ensuring that the former administrating power will continue to finance and defend that territory.

Prior to World War II, the Federated States of Micronesia, the Marshall Islands, the Northern Marianas and Palau belonged to Japan. The U.S. government seized these islands in 1944, and assumed legal responsibility for their administration in 1947 as the United Nations Strategic Trust Territory of the Pacific Islands.

The trusteeship system of the United Nations was planned as a transitional administration for a limited number of territories which, it was assumed, would terminate in independence. Under the provisions which established the United Nations Strategic Trust Territory of the Pacific Islands, Washington was to administer the islands that constitute the Federated States of Micronesia, Marshall Islands, Northern Marianas, and Palau as a single political entity.

Although most islanders favored independence, as the "Cold War" developed, the U.S. government desired to retain control of

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TABLE TWO

Hierarchy of Insular Territories

Eight Insular Territories	Political Status	Legislative System	Status in Washington	U.S. Legal Status of Islanders
Federated States of Micronesia	"Free Association" Security provisions last 15 years	unicameral	Ambassador	None
Marshall Islands	"Free Association" Security provisions last for 15 years; but at Kwajalein for 30 years	bicameral lower House functions as a parliament; upper House composed of tribal chiefs	Ambassador	None
Palau	"Free Association" Security provisions last for 50 years	bicameral	Ambassador	None
Northern Marianas	"Commonwealth" (greater autonomy over land and immigration), unincorporated organized.	bicameral	Opted not to have a delegate to Congress. Has elected lobbyist instead.	citizens

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Puerto Rico	"Commonwealth" (lesser autonomy only territory within U.S. Customs Zone), unincorporated, organized	bicameral	Resident Commissioner can vote in the sub-committees, full committees, and caucuses of U.S. House of Representatives	citizens
Guam	unincorporated organized	unicameral	Delegate can vote in sub-committees, full committees, and caucuses of U.S. House of Representatives	citizens
U.S. Virgin Islands	unincorporated organized	unicameral	Delegate can vote in the sub-committees, full committees, and caucuses of U.S. House of Representatives	citizens
American Samoa	unincorporated unorganized	bicameral elected lower House and a Senate of tribal chiefs	Delegate can vote in the sub-committees, full committees, and caucuses of U.S. House of Representatives	nationals

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strategic portions of this widely spread Pacific territory. As a result, Washington permitted – if it did not actually orchestrate – the fragmentation of the U.N. Strategic Trust Territory of the Pacific Islands into four separate entities. It retained permanent possession of the most strategic island group, the Northern Marianas, under a "commonwealth" covenant, and offered the other three, the Federated States of Micronesia, the Marshall Islands and Palau, compacts of"free association" with the United States.

This "free association" consists of two parts: political and defense/security. The Federated States of Micronesia, Marshall Islands and Palau may unilaterally vote to end their political status of "free association" at any time, but if they do exercise their right to independence this act will not affect, alter or abolish the defense and security provisions which would remain in full force.

However, within this group of three a hierarchy exists as each entity is treated differently by these defense and security provisions. For the Federated States of Micronesia, the provisions last only 15 years.[8] For the Marshall Islands, they last 15 years for the archipelago as a whole, but 30 years for the Kwajalein military facilities located within these islands.[9] After these provisions expire, the Federated States of Micronesia and the Marshall Islands have agreed to *permanently* deny their lands and facilities to any third power.[10] In the case of Palau, however, the defense and security provisions last for 50 years, and then remain in force for perpetuity unless terminated or altered by mutual consent.[11]

As long as the Federated States of Micronesia, the Marshall Islands and Palau remain in "free association" with the United States, Washington, in addition to guaranteeing these islands substantial economic assistance and certain technical services for a specified period, provides "at no cost to the respective governments, airline and airport safety services, economic regulation of commercial air service, weather prediction, public health services, legal aid services, assistance from the Farmers Home Administration and assistance in the event

[8] Title Four, Section 453 of the Compacts of Free Association.
[9] Title Four, Section 453, and the Status of Forces Agreement (SOFA).
[10] Article IV of the supplementary military agreements.
[11] Title Four, Section 453.

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of natural disasters."[12] Furthermore, mail delivery continues to be provided by the United States Postal Service.[13]

The Many Meanings of "Commonwealth"

"Commonwealth" status possesses a hierarchy, too, but lacks any precise legal definition. Originally, in U.S. legal usage, the term "commonwealth" applied only to States. Five U.S. States officially identified themselves as "commonwealths" in their respective constitutions – Kentucky, Maryland, Massachusetts, Pennsylvania and Virginia. Their powers are limited by the U.S. Constitution. However, from 1935 to 1946, Congress designated the Philippines, a U.S. possession since 1898, a "commonwealth". Other than its name, the "Commonwealth of the Philippines" bore no legal or political resemblance to the "commonwealths" of Kentucky, Maryland, Massachusetts, Pennsylvania, or Virginia. For the Philippines, the term "commonwealth" designated not a State in the Union, but a transitional administration leading to independence from that Union, and the powers which it exercised were inferior to those exercised by States because they were limited not by the U.S. Constitution but by the whims of Congress.

Yet a third type of "commonwealth" was created by Congress for Puerto Rico in 1952, and for the Northern Marianas in 1986. In these instances, Congress applied the term "commonwealth" not to designate Statehood or transition to independence, but as a verbal camouflage to preserve their territorial links to the United States. That the term "commonwealth" as applied to a U.S. territory is devoid of legal meaning was publicly admitted in 1976 by the U.S. Supreme Court and Congress. While never addressing the constitutionality of Puerto Rico's "commonwealth" status in the case of *Examining Board of Engineers v. Flores de Otero,* the U.S. Supreme Court acknowledged that Puerto Rico "occupies a relationship with the United States that has no parallel in our history."[14] Similarly, in its report on "The Covenant to Establish a Commonwealth of the

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[12] "Status of the Trust Territory of the Pacific Islands -- Provisions of the Compact", United States Department of the Interior, Oct. 1991, p. 3.

[13] Ibid., p.3.

[14] "Examing Board of Engineers v. Flores de Otero", 426 U.S. 572, 596 (1976).

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Northern Mariana Islands", the Senate bluntly stated:

> the term 'commonwealth' is not a word describing any single kind of political relationship or status. . . The choice of the term 'commonwealth' for the Northern Mariana Islands therefore does not denote any specific status, in particular it does not connote identity with the title held by the Commonwealth of Puerto Rico.[15]

The Difference Between "Organized" and "Unorganized" Territories

Guam and the U.S. Virgin Islands are "unincorporated and organized" territories. They are "unincorporated" because the provisions of the U.S. Constitution do not apply in full to these islands. They are "organized" because Congress established the governments for both of these territories through legislation called an "organic act."

American Samoa, alone, is both an "unincorporated and unorganized" territory. It is "unincorporated" because, like Guam and the U.S. Virgin Islands, the provisions of the U.S. Constitution do not apply in full to this territory. It is "unorganized" because, unlike Guam and the U.S. Virgin Islands, the government of American Samoa was not established by Congress though an "organic act" but by local legislation.

Special Privileges Enjoyed by the U.S. Territories

Territorial Power Over Immigration

Today's U.S. territories actually enjoy many benefits not permitted by the U.S. constitutions to persons resident in the U.S. States. In the new, hierarchical political structure created by Congress since 1952, these eight U.S. territories – in violation of the U.S. Constitution – actually possess greater powers than the States of the Union. The most important power which Congress has awarded the territories is control over immigration, a power which has been denied to the States since 1875, when the federal government established direct regulation over immigration.[16] Recognizing the negative impact immigration can have on the demographics of a land, Congress has given American Samoa, the Federated States of Micronesia, the Marshall Islands, the Northern

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[15] "The Covenant to Establish a Commonwealth of the Northern Mariana Islands", Senate Report No. 433, 94th Cong., 1St Session (1976), p. 65.

[16] Act of March 3, 1875 (18 Statutes-at-Large 477).

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Marianas and Palau the right to control immigration into their territories so that the islanders can preserve their respective ethnic, racial, and cultural identities. For this reason, Guam has been lobbying Congress for years for this same power.

Territorial Power over Land Ownership

Congress has also permitted American Samoa,[17] the Federated States of Micronesia,[18] Marshall Islands,[19] the Northern Marianas,[20] and Palau[21] to enact land alienation laws – i.e., to place restrictions on ownership of land based upon racial or ethnic identity. In order to own land in the Federated States of Micronesia, the Marshall Islands, or Palau, one must be a citizen of that particular "republic" which, in effect, means one must belong to a specific ethnic group. One must meet a prescribed definition of island "descent" to own any land in the Northern Marianas, or most land in American Samoa. Guam has been lobbying Congress for this power as well. Such racial restrictions on land ownership violate the equal protection clause and the privileges and immunities clause of the 14th Amendment, as well as the just compensation clause of the 5th Amendment.

Separate Citizenship

Congress has granted the Federated States of Micronesia, the Marshall Islands and Palau their own separate citizenship, although it is questionable whether Congress has the constitutional right to "terminate" a territorial status – in this case the United Nations Strategic Trust Territory of the Pacific Islands – in such a way that the former territory continues to be legally "associated" with the United States and a benefactor of federal programs, after its inhabitants become citizens of a foreign country. It has been argued that this violates Article I, Section 8 of the U.S. Constitution which requires Congress "To establish an uniform Rule of Naturalization".

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[17] Article 1, Section 3 of the Constitution of American Samoa.

[18] Article XIII, Section 4 of the Constitution of the Federated States of Micronesia.

[19] Article X, Section 1 and 2 of the Constitution of the Republic of the Marshall Islands.

[20] Article XII, Section 1, 4, and 6 of the Constitution of the Commonwealth of the Northern Marianas.

[21] Article III, Section 1, 2, 4, and 5, and Article MII, Section 8 of the Constitution of the Republic of Palau.

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TABLE THREE

Membership or Observer Status of U.S. Territories in International and Regional Organizations : A Partial List

American Samoa

Economic and Social Commission for Asia and the Pacific
International Olympic Committee
Pacific Basin Development Council
South Pacific Commission
South Pacific Regional Environmental Program
Western Pacific Fisheries Management Council

Federated States of Micronesia

Asia/Pacific Coconut Community
Asia/Pacific Parliamentarians Union
Asian Development Bank
Economic and Social Commission for Asia and the Pacific
Forum Fisheries Agency
International Civil Aviation Organization
International Telecommunications Satellite Organization
International Telecommunications Union
International Monetary Fund
International Olympic Committee
South Pacific Commission
South Pacific Forum
South Pacific Regional Environmental Program
United Nations
World Bank
World Health Organization

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Guam

Asia/Pacific Parliamentarians Union
Asian Pacific Development Center
Asian Pacific Cultural Center
Association of Pacific Islands Legislature
Council of Micronesian Chief Executives
Economic and Social Commission for Asia and the Pacific
Forum Fisheries Agency
International Olympic Committee
Micronesian Games
Pacific Islands Development Program
South Pacific Applied Geoscience Commission
South Pacific Commission
South Pacific Games
South Pacific Regional Environmental Program
Western Pacific Fisheries Management Council

Marshall Islands

Asian Development Bank
Asia/Pacific Parliamentarians Union
Economic and Social Commission for Asia and the Pacific
Forum Fisheries
International Civil Aviation Organization
International Monetary Fund
International Olympic Committee
International Telecommunications Union
South Pacific Commission
South Pacific Forum
South Pacific Regional Environmental Program
United Nations
World Bank
World Health Organization

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Northern Marianas

Association of Pacific Island Legislatures
International Olympic Committee
Council of Micronesian Chief Executives
Economic and Social Commission for Asia and the Pacific
Pacific Basin Development Council
South Pacific Commission
South Pacific Regional Environmental Program
Western Pacific Fisheries Management Council
World Health Organization

Palau

Asian/Pacific Parliamentarians Union
Asia Development Bank *
Economic and Social Commission for Asia and the Pacific
Forum Fisheries
International Civil Aviation Organization
International Monetary Fund
International Olympic Committee
South Pacific Commission
South Pacific Forum
South Pacific Regional Environmental Program
United Nations
World Bank

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Separate Representation in International Organizations

Congress grants the following eight territories – American Samoa, Guam, the Federated States of Micronesia, the Marshall Islands, the Northern Marianas, Palau, Puerto Rico and the U.S. Virgin Islands – their own representation in international organizations. For instance, all are members of the International Olympic Committee. In addition, the Federated States of Micronesia, Marshall Islands and Palau are members of the United Nations; American Samoa, Guam, and Northern Marianas are members of the South Pacific Commission. Puerto Rico has membership in, and the U.S. Virgin Islands observer status in, the Caribbean Economic Community. For a list of territories enjoying membership in such organizations, see Table 3, "Membership or Observer Status of U.S. Territories in International and Regional Organizations: A Partial List". Such marks of sovereignty are denied to U.S. States by Article 1, Section 10 (1) of the U.S. Constitution, which proclaims that "No State shall enter into any Treaty, Alliance, or Confederation;. . .No State shall. . . enter into any Agreement or Compact...with a foreign Power". If such powers are unconstitutional for a State, it is an interesting question when they became constitutional for a territory.

Other Privileges Denied by the U.S. Constitution to U.S. States

Indeed, the ambiguous constitutional position of today's U.S. territories is further highlighted by the fact that Congress permits the Northern Marianas to violate proportional representation in the composition of the upper chamber of its legislature.[22] Equal representation is provided the islands of Rota, Tinian, and Saipan although the population of Saipan is six times greater than the other two combined. Therefore, there is one Senator for 4500 residents on Saipan, 400 residents on Rota, and 250 residents on Tinian. This violates the equal protection clause of the 14th and the 15th Amendments. It also violates the decision of the U.S. Supreme Court in "Reynolds v. Sims" (1964) mandating "one person, one vote". The Court ruled that both chambers of any bicameral legislature below the level of the U.S. Congress must be apportioned on the basis of

[22] Article II, Seclion 2 of the Constitution of the Commonwealth of the Northern Marianas.

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population, otherwise an individual's vote has been "in a substantial fashion diluted." This decision expressly declared "historical, economic, or other group interests, or area alone, do not justify deviation from the equal-proportion principle."[23]

Congress permits American Samoa to limit membership in the upper chamber of its legislature to village chiefs (*matai*), chosen according to Samoan customs.[24] This violates the privileges and immunities clause of the 14th Amendment by restricting the office of Senator to members of the Samoan nobility; and by granting official recognition to that nobility, the composition of the Senate of American Samoa further violates Article 1, Section 9 of the U. S. Constitution: "No Title of Nobility shall be granted by the United States".

Territorial Representation in the U.S. House of Representatives

Finally, Congress has granted the residents of American Samoa, Guam, Puerto Rico, and the U.S. Virgin Islands the right to send delegates to the U.S. House of Representatives who can vote in the subcommittees, the full committees, and the caucuses of that chamber. This practice dilutes the voting power of the U.S. citizens of the 50 States. Although the delegates from these five "territories" do not vote on bills before the full House, by voting in the sub-committees, the full committees, and the caucuses they can determine what bills actually reach the floor of the full House.

Calls for Further Restructuring of the Union

All the above is of significance in that it indicates a direction in which the United States, as a political construct, is drifting. Some competent advocates of Puerto Rican Statehood have claimed that Puerto Rico can become a State without them having to pay federal taxes, or that federal taxes would be phased in over a number of years. Either scenario would violate Article 12 Section 8 (1) of the U.S. Constitution which mandates that "all duties, imposts, and

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[23] James A. Branch, Jr., "The Constitution of the Northern Mariana Islands: Does A Different Cultural Setting Justify Different Constitutional Standards?", Journal of International Law and Policy, Vol. 9:35, 1980, p. 57.

[24] Article II, Section 3 and 4 of the Constitution of American Samoa.

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excises shall be uniform throughout the United States". [25]

The former Governor of Puerto Rico, and currently the Resident Commissioner of Puerto Rico to the U.S. House of Representatives, Carlos Romero-Barcelo, lobbies for Puerto Rican Statehood based on the reasons he gave in his 1978 book, *Statehood is for the Poor*.

> If it were a state, Puerto Rico would be absolutely assured of enormous amounts of federal money – money the island needs in order to come to grips with its many problems. But without statehood, such large quantities of money are going to be increasingly hard to come by.[26]
>
> Puerto Rico's per capita contribution to the federal treasury, were we a state, would come to less than that of any other state in the Union. At the same time, the per capita benefits we'd reap from federal aid programs would be greater than those of any other state in the Union.
>
> On top of all this, we'd also have seven or eight Puerto Ricans serving as full voting members of Congress, working in Washington at all times to help draft and pass new and improved social welfare legislation.[27]

Statehood becomes simply the best available vehicle for obtaining disproportionate profits at the expense of other States, not a commitment to a common patriotism shared by all States. As Carlos Romero-Barcelo maintained then and maintains now: "yes, we want statehood, but neither our language nor our culture is negotiable."[28]

Should Congress enact a bill on Statehood for Puerto Rico, such as the recently introduced H.R. 856, which does not mandate English as the official language of the new state – as was done previously under the terms of the Enabling Act and the Admission Act for the

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[25] Statement by the then Resident Commissioner of Puerto Rico, Jaime B. Fuster, in the Congressional Record, Tuesday, March 7, 1989, E 668.

[26] Carlos Romero-Barcelo, *Statehood is for the Poor*, [San Juan, P.R.]: Romero-Barcelo, (English translation of La estadidad es para los pobres), 1978, p. 79.

[27] Ibid., p. 87.

[28] Ibid., p. 95.

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States of Arizona, Louisiana, New Mexico, and Oklahoma[29] – it will not have the legal authority to subsequently require a State of Puerto Rico to conduct any of its government activities in English. As the American Law Division of the Congressional Research Service wrote in October 1997: "Under existing precedents, it seems highly unlikely that Congress could under its legislative powers and acting only through a statute mandate that a State conducts its official affairs using a language of Congress' choosing."[30]

In addition to the issues of language and culture, some proponents of Statehood openly declare that they want the "State" of Puerto Rico to have legal power over immigration and land alienation. Still others proclaim their dedication to restructuring the United States into a federation of "nations". Thus we find Luis R. Davila-Colon prophecying that:

> The future admission of its Overseas territories and the District of Columbia, as equal members of the Union, would lay the groundwork for a stronger Union and, perhaps in time, for the sharing of the American system of government with nations which may want to share our dreams, progress and democratic values.[31]

This may be translated as meaning: the United States should become an international conglomerate, and that in order to facilitate such a transformation the United States should be prepared to abandon its traditional language, culture, citizenship and even its constitution. Thus we find advocates of such drastic change stating:

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[29] Grupo de Investigadores Puertorriquenos, *Breakthrough from Colonialism: An Interdisciplinary Study of Statehood*, 2 Vols., Editorial de la Unversidad de Puerto Rico (San Juan, 1984), vol. 1, pp. 160, 682, 712, 736.

[30] English First Members' Report, December 22, 1997, Volume XII, Number 5, "Can't we solve the problem of Puerto Rico statehood by simply including a strong English requirement for a potential 51st. state of Puerto Rico?", p.1.

[31] Luis R. Davila-Colon, Esquire, "The Supranational Union: An Evolving Model of Statehood for Twenty-First Century America", Proceeding: Conference on the Future Political Status of the United States Virgin Islands at the University of the Virgin Islands St Thomas Campus. U.S. Virgin Islands, February 26 and 17, 1988, (University of the Virgin Islands, 1989), p. 7. Luis R. Davila-Colon is a lawyer and Editor-in-Chief of the two volume advocacy work for Puerto Rican Statehood, *Breakthrongh from Colonialism: An Interdisciplinary Study of Statehood.*

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> The notion that we have a living Constitution which adapts to the realities of a changing world, suggests to this writer, that the concept of 'We The People...' may one day include as fully sovereign states, Black, Hispanic, Pacific, poor and not so poor Nations and societies, all willing to share a common Federal government. . . [32]

[32] Ibid., p. 7.

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through a statute mandate that a State conducts its official affairs using a language of Congress' choosing."[30]

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[32] Ibid., p. 7.

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Is Immigration the Answer to a Labor Shortage?

Joseph L. Daleiden
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As a nation reaches the peak of a business cycle, labor shortages inevitably appear and pressure on wage rates increases, especially in the fastest growing industries. Businessmen frequently seek to increase immigration to obtain additional labor. Central banks may be inclined to raise interest rates to curb the possibility of inflation. Both short term fixes interfere with the natural workings of a market economy and can only create severe problems in the long term, including slower productivity growth, greater income inequality, and – ultimately – overpopulation and all of its related problems.

Key Words: GDP, immigration, labor, overpopulation, inflation

Much of current talk about a labor shortage in the U.S. is reminiscent of the concern expressed by slaveowners who argued that if the U.S. abolished slavery there would be no one to pick the cotton. Today we hear that without more immigrants there will be no one to pick lettuce, cut lawns, work in restaurants or perform a million and one other low-skilled tasks. In the high tech industry we hear a variation of the same theme: the software industry argues that there is a shortage of programmers and information technology specialists. Some warn that the specter of labor shortages will result in lower national growth and a decline in real income.

To understand whether there is any truth in the latter argument, we have to review some basic economic and demographics tenets. Too few commentators realize that the only way a nation's *per capita* wealth can increase is through increased productivity (more output using less input). In the absence of productivity growth, individuals can only increase their wealth through reallocation, i.e., the transfer of income from one individual or group to another individual or group.

A nation's *total* wealth or annual output (Gross Domestic Product) can also increase through simple population growth, since there are more hands to produce things, but total wealth is largely irrelevant as a measure of changes in human well-being. China's total output (GDP) is 8 times larger than that of Switzerland, but on a per

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capita basis the GDP of the Swiss is 20 times that of the Chinese.

In the normal business cycle, increases in productivity are shared by the providers of labor and the providers of capital (investors). Their respective shares are determined by the relative scarcity or abundance of each. During the 1950s and early '60s, the shortage of labor in the U.S. resulted in U.S. labor being able to improve its bargaining position and wages rose rapidly. During the 1970s and 1980s, the labor force swelled due to the baby boom and the growing labor force participation rates for women. The increased supply of labor relative to demand weakened the competitive position of labor. The growth of international markets and, hence, competition from low wage countries resulted in further downward pressure on wages. The net result was that inflation adjusted hourly wage rates declined steadily from 1973 until 1993.[1] Productivity grew 1.2% annually over this 20 year period; the total increase in productivity amounted to 24%.[2] Therefore, if labor had maintained its bargaining power, real wages might have *increased* about 24%. Instead, average weekly earnings *dropped* by 19%, a net difference of 43%. Some of this decline was offset by increased benefits, but total compensation adjusted for inflation remained unchanged over this period.

After the baby boom was absorbed into the labor force, the slowing in the growth of the labor force would normally have resulted in real wages rising again, but probably not as much as in the 1950s because the U.S. now faces far more competition from international markets. Nevertheless, since international exports account for only about 12% of total U.S. output, wage rates would still be primarily affected by the supply and demand for labor in the U.S.

Corporations understand that the supply and demand for labor determines wage rates and that is why they successfully lobbied Congress to increase immigration in 1990. Unions do not appear to understand the law of supply and demand, or else care more for attracting additional dues-paying members than increasing their members' wages. Hence, they did not oppose the increased immigration; in fact, they supported it.

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[1] United States Government Printing Office, *Economic Report of the President, February, 1997*. Washington D.C. 1997. Table B-45, p. 352.

[2] United States Government Printing Office, *Economic Report of the President, February, 1997*. Washington, D.C. 1997. Table B-47, p. 354.

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Of course, given the huge increase in the labor force due to the post-war baby boom, the increase in immigration will not be sufficient to entirely offset the decline in the labor force as the post-war baby boomers retire. However, the shortage is temporary since we will soon have the children of the baby boomers entering the labor force. Remember, the baby boom lasted from 1945 until 1957. Since many of the baby boomers started family formation much later than their parents, the bulk of children of the baby boomers range in age from 10 to 25. Therefore, most have not yet entered the labor force.

Can immigration fill this temporary job market shortfall? Certainly, but then there will once again be a labor surplus when the bulk of the baby boom children enter the labor market. Moreover, wage earners will be unable to increase their share of the productivity pie. A far better solution is to allow the free market to work. In this case, the labor shortage will result in increased wage rates making up some of the lost ground since 1973.

Tighter labor markets will also result in increased productivity as businesses seek to avoid higher labor cost by becoming more efficient or developing new methods of mechanization. The lemon growers of California are a good example. From W.W.II until 1964, lemon growers depended upon temporary workers under the Bracero program. When the Bracero program ended, fear of increased labor costs caused the growers to invest in mechanization and higher-producing dwarf trees. But when immigration increased again in the 1970s, the growers stopped innovating and increased their dependence on cheap labor.

Won't higher wages result in inflation? Not if the Central Banks keep their heads and avoid pumping up the money supply as the Federal Reserve Board did beginning in 1965. It works like this: the tight labor market results in increased wages. If wages rise faster than productivity, businesses will seek to maintain profits by increasing productivity (often by replacing labor with mechanization) or raising prices. But either reducing employment or increasing prices will cut aggregate demand for business products. The drop in demand means that inventories will increase and businesses will reduce production; this leads to decreased prices or layoffs. Layoffs will result in still less demand and further downward pressure on prices. Hence, inflation is curbed without the need for active government intervention.

One of the benefits of a market economy is that, for the most

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part, it is self-regulating. In fact, government intervention often does more harm than good by interfering with the normal adjustment processes. Importing millions of additional workers is one of those ill-advised interventions.[3]

Initially, a high level of immigration will be viewed as an economic benefit as it results in increased economic growth. The reason for the higher growth rates will be in part simply due to the increase in population. However, as mentioned, only *per capita* GDP, not total GDP, is a relevant measure of social welfare. When the National Research Council reported in 1997 that immigration increased U.S. economic output by $1 to $10 billion annually, they were being disingenuous not to note that adding in the population of immigrants actually reduced GDP *per capita*. When the additional cost, (both capital and maintenance) of the immigrants are included, such as the cost of constructing and maintaining more schools, highways, power, water and sanitation systems, police and fire protection, etc., not only is the per capita cost far greater, but the total economic loss was estimated at $10 to $14 billion annually.[4]

Nevertheless, it is entirely possible that in the short run increased immigration will have a net positive per capita benefit. The downward pressure on wage rates, and the resulting increase in return on investment, will attract additional capital from abroad. Furthermore, providing investors with a larger share of total national income will increase the average propensity to save and invest. As a consequence, productivity and, hence, average per capita GDP might increase. However, since the providers of capital will not share this output equally with the providers of labor, it is problematic whether

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[3] Contemporary Germany is an example of a country which deliberately encouraged immigration during an industrial boom, only to be faced today with embarrassingly high unemployment rates. France is in an even worse situation, suffering from the highest rate of unemployment in Western Europe after admitting millions of immigrants since World War II.

[4] National Research Council, *The New Americans: Economic, Demographic and Fiscal Effects of Immigration*, National Academy Press, 1997. Some other studies using very different methodology have estimated the negative impacts as far greater. For example, Donald Huddle of Rice University estimates that by 1996 the net annual cost of legal immigrants arriving since 1970 was $65 billion. Dr. Donald Huddle, "The Net National Costs of Immigration: The Facts the Trends and the Critics," Carry Capacity Network, Washington, October 22, 1996. Other studies do not estimate the negative impacts as high, but none of the studies attempt to estimate long term impacts.

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labor will be better off. The NRC study found that even in the short term, immigration decreased the per capita income of the poorest 10% of society by 5% while increasing the income of the rest of society by a mere 0.2%.[5]

In the long run, to be competitive other nations will have to either increase their productivity or, if they are unable to sufficiently increase productivity to offset the lower wages of the U.S., they will have to reduce their wage rates as well. The net result will be increasing worldwide inequality of income between the providers of capital and providers of labor.

There is yet another problem to be considered: the fate of those immigrants who fail to compete for jobs in the U.S. During the last great wave of immigration (1900-1914), 40% of the immigrants went back home when they couldn't find jobs in the U.S. Now they, or the Americans they displace, will end up on welfare or struggling to survive on low paying jobs. At a time when we are also seeking to push millions of welfare recipients into the workforce will make the problem that much worse.

The post-W.W.II baby boom created temporary problems in the U.S. when the baby-boomers entered school and the labor force, and will create some problems at the other end of their lives when they leave the labor force and retire. It is like the bulge in a python that swallowed a goat. It has to work its way through the digestive system. In the case of the baby boom, swallowing this huge increase in the labor force has caused some economic heartburn, but you don't treat indigestion by eating more food.

Finally, some policy makers have suggested that we increase the supply of labor to generate additional tax dollars to pay for the benefits of the baby boomers as they retire. But of course this would require adding still more immigrants,[6] to cover the benefits of the first wave of immigrants when they retire. Like any pyramid scheme requiring ever larger numbers, it must ultimately collapse. The answer to providing increased benefits is to increase productivity and, hence,

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[5] Steven Camarota, "Immigration's Effects on Jobs and Wages," *Immigration Review*, Center for Immigration Studies, Summer, 1997. p. 5.

[6] Since immigrants tend to have high fertility rates the first couple of generations, the children of immigrants would also increase the total labor force. But whether the increased population is due to increased immigration or increased fertility rates, the impact is similar.

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per capita wealth. The primary way of increasing productivity is to increase investment per worker, not to simply increase the total number of workers.

Joseph Daleiden is an business economist, demographer and author who has worked in both the private and public sectors. Most recently he served as the Director of Long Term Planning for Ameritech. His latest book, *The American Dream: Can it Survive the 21st Century?* is to be published by Prometheus Books in February 1999.

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BOOK REVIEWS

The Clash of Civilizations
Samuel Huntington
Simon & Schuster, 1996; 369 pages.

Author Samuel Huntington of Harvard University is Director of the Olin Institute for Strategic Studies and served as director of security planning for the National Security Council in the Carter Administration.

Noted as one of the world's most distinguished political scientists, his recent work *The Clash of Civilizations and the Remaking of World Order* dares to warn Western leaders that their reshaping of the world is doomed to failure and will backfire. The financial crisis in Asia appears to support his views.

While Western statesmen attempt to build a world trading and cultural framework – an international order which would supposedly bring about world peace and prosperity for all – Huntington raises concerns which if ignored, he warns, could spell disaster for the West. His argument, based on current trends and historical precedence, is that in such a world order the West will be subsumed into non-Western cultures and civilizations.

For decades, the post-World War II generation has assumed a world divided on ideological and economic lines. But with the collapse of the communist states in the late 1980s, the Cold War system to which we were so accustomed no longer was the model for international relations or understanding the world's conflicts. Today, he claims, the most important distinctions between peoples are no longer political/economic – but once again civilizational and cultural. The bulk of the world's population still define themselves in terms of values, history, ancestry, language, customs and religion.

As such, the future of conflicts, of which we have seen only the first rumblings in the former Yugoslavia, in the Middle East, in the Indian sub-continent, in Africa and within the Chinese "empire," will be between cultures and civilizations: fault lines between civilizations will become the battle lines of the future. It will be clashes of this kind that will pose the future threat to world peace.

Huntington further argues that while the West assumes that its

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civilization, language and values are being superimposed upon the rest of humanity, trends and statistics indicate the very opposite. Western civilization, in a steep decline mode, is assuming the features of other civilizations, a trend promoted by the relatively open frontiers that the West maintains towards immigrants from the Third World as well as by its official policies.

Western society, with its tremendous economic prosperity, fresh from its triumph over East European Communism, has a successful facade which belies its weaknesses beneath the surface. Western nations, Huntington effectively argues, are in a deep mode of decay and their civilization displays evidence of a lack of will to survive. Historically, civilizations experience a phase which may be described as a "blissful golden age with its illusions of immortality [which] has ended either dramatically and quickly with the victory of an external society or slowly and equally painfully by internal integration." What happens in the universe is not necessary consistent with what human beings feel is ethically "right" at any one period in time – or ever.

Huntington's warning to Western leaders is clear: the trends indicate that Western Civilization will disappear unless they display leadership and the will to ensure that it continues. His book is well worth the time to absorb his arguments. The Western world has come close to accepting the philosophy of the universal state, but the rest of the world is far from sharing those goals, and in such a situation the West is doomed to lose what remains of its own values as they are overwhelmed by the sheer weight of populations which support rival cultures.

The Private Life of Chairman Mao
Li Zhisui
Random House, New York, 1994,
ISBN 0-679-76443-7, 682 pages, $20 paperback

Humanity's understanding of the twentieth century has been so colored by ideology that virtually all of the century's history is bound to be rewritten over time as facts come to light and as the ideological miasma dissipates. Dr. Li Zhisui's memoir as Chairman Mao's personal physician for twenty-two years between 1954 and 1976 is best understood as yet another "nail in the coffin" of the conventional understanding of this past century.

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Even today, after all the revelations of recent years, the western public would not instantly think of Mao when asked to name the century's more vicious villains. And yet we see in Dr. Li's book further confirmation of an enormity: that in just the three years of the Great Leap Forward (said to be from 1958-1960, but leading to a vast famine between 1960 and 1962) Mao knowingly pursued policies that starved a variously estimated 25 to 43 million people to death. If we had photographs of the emaciated victims and museums to commemorate the deaths, we would realize that those were real, living human beings. If the millions of Mao's other victims were also taken into account (and the same were done with Stalin's and Pol Pot's), in what countless ways would our perspective of the twentieth century change from what it now is?

Because he was at Mao's side during all those years, Dr. Li, who died in 1995, was almost certainly Mao's most intimate observer. It is interesting, however, that even the worst excesses are told without recoil. This has the advantage of producing a calm, "objective" telling even amid scenes as to which an application of normal human standards would more appropriately call for passionate abhorrence. Dr. Li was brought to this by having first been a Communist true believer and then, for the last 18 years, a secretly-dissenting sycophant smiling cheerfully and serving Mao out of an elemental desire to keep himself and his family alive.

Here are some of Mao's characteristics as reported by Dr. Li:

1. Upon first meeting Mao, people found him charming, sympathetic and casual. But a more intimate acquaintanceship showed him devoid of feeling, and incapable of love, friendship or warmth. "The more one knew Mao, the less he could be respected."

2. He was constantly suspicious and manipulative, keeping his associates on permanent probation. Mao encouraged people to take a position so he could turn against them, and was ruthless toward people, no matter how close to him they had been, if they lost their usefulness. Even Dr. Li feared for his life for long stretches of time.

3. The dichotomy between Mao's private and public life was cynically hypocritical. Even though he and the Communist Party preached asceticism to the masses, Mao and the leadership lived sumptuously. Although dancing was prohibited in China as

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"bourgeois," Mao enjoyed weekly dance parties. His puritanism in public was matched by a bisexual sex life with an "uncountable" number of young women and some men. Mao gave them venereal disease without qualm - and they considered it an honor to receive it.

Mao and the leadership enjoyed all the trappings of imperial majesty. Each province built Mao a villa. Train traffic became snarled in China for a week when he set out in his luxuriously appointed eleven-car train, as all traffic was stopped on the line and the stations were closed as his train passed. Potemkin villages were constructed to impress him, and during the Great Leap Forward thriving fields were planted along the tracks as though there were a bountiful crop despite the famine that was killing millions. Sentries would be posted every fifty yards along the entire route. When Mao flew, all air traffic in China was grounded.

The government was an odd mixture of personal dictatorship and collective rule. Dr. Li says that in 1962 Mao didn't have the ability to purge the Party on his own, but had to back up his actions by mobilizing the masses through ideology. All important decisions were made by 30 or 40 leaders at the top. And yet, Mao occupied "the spider's position at the center," playing people off against one another and having their secretaries and guards spy on them. The pervasive atmosphere was totalitarian: when, for example, the other doctors came under attack, Dr. Li dared not speak out; he said his survival depended upon betraying his conscience.

The Cult of Mao began in 1964 with the first publication of his Quotation's and poured adoration upon him, but Mao had no concern about the fate of the masses. He told Nehru that the deaths of 20 to 30 million Chinese in an atomic war would be acceptable - and in Moscow he told the Russians he was willing to lose 300 million. This wasn't just talk; he backed it up with his cheerful callousness as millions died during the Great Leap Forward and the Cultural Revolution (not to mention the rest of the time).

Much welcome detail is given about the Great Leap Forward. Mao insisted that everyone participate in steel production through backyard furnaces. Peopled melted down their household implements and tools, producing useless iron nuggets, and even fired the furnaces with their furniture. Even though the weather was splendid during

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those years, harvests rotted in the fields as the farmers worked on the furnaces. Local leaders were induced to make fantastic targets for their expected harvest, and then taxes were levied on the basis of those estimates, taking away all the grain. Millions starved even as grain was exported, but official propaganda proclaimed the opposite, and the Cult of Mao grew. All the while, "Mao knew that people were dying by the millions. He did not care."

The Cultural Revolution that began in 1966 and lasted until Mao's death in 1976 was ostensibly to attack "bourgeois" elements. It was mainly, however, to undercut Liu Shaoqi and Deng Xiaoping's brand of Communism expressed in "the principles of the Eighth Party Congress" in 1956 as embracing collective leadership and a denial of a cult of personality. Mao, Dr. Li says, never had a plan for the Cultural Revolution, but thoroughly enjoyed the chaos, believing that "great chaos will lead to great order." The Cultural Revolution consisted of Mao's appeal directly to the young, bypassing both the Party and the State. Led by Mao's wife Jiang Qing, students rioted and gigantic "character posters" attacked officials at all levels. Millions of party cadres were exiled to labor in the countryside. Universities were taken over by "worker propaganda teams." "All China was wearing Mao buttons and carrying his little red book and reciting his quotations." This decade-long caprice ended capriciously when Mao turned against his wife and brought back Deng Xiaoping, only to support a later effort to reaffirm the Cultural Revolution and oppose Deng.

To gods on Olympus looking down upon the human comedy, this would all be incredibly funny. It happened, though, to real people - and in our own time.

Dwight C. Murphey

Evolutionary Innovations:
The Business of Biotechnology
Maureen D. McKelvey
Oxford University Press, 1996

The theoretical first half of this book discusses the theory of evolutionary and institutional economics and the implications for the innovative process. It argues that biology's evolutionary theory offers

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a useful metaphor for the innovative process in the economy, but not an exact analogy. The innovative process involves the generation of novelty (similar to the mutational and sexual recombination process in evolution) and then selection from the alternatives generated. This is the basis for the metaphor.

In contrast to biological evolution by genetic recombination, economic evolution is Lamarckian in that learned innovations are inherited. While in biology each individual represents only one innovation, in the economy a single firm can investigate several innovations. Finally, in the economic sphere, firms and individuals can learn from each other.

McKelvey contrasts this dynamic model with the neoclassical one in which technological developments are exogenous, with firms responding to price signals and always reaching a global optimum. I suspect most observers would agree with the correctness of McKelvey's observations here, although some might disagree with how important her points are for specific cases. One case where observers might think that such factors were very important would be biotechnology and the introduction of wholly new technologies.

The bulk of the book examines how biotechnology was developed and introduced, with emphasis on one of its earliest products, human growth hormone. Not surprisingly, various institutional details are found to play an important role in the history of this product. After a brief chapter introducing the technology, the history of genetic engineering is told, starting with the university research and the debates over safety. It is pointed out how the traditional dividing line between science (new knowledge that is sought in university) and technology (applied knowledge developed in firms) did not apply here, with both universities (the University of California in San Francisco is the case study here) and firms doing some of both. The story is told of how Genentech was founded, and how the Swedish pharmaceutical firm KabiVitrum gave them an early research contract to develop a new technology for producing human growth hormone. KabiVitrum was then producing this in large quantities from human pituitary glands. The emphasis is placed on the various institutional details that played a role in shaping how firms and universities acted, including the conflict between a prestige-driven academic reward system and the profit-driven-firm one.

The book is rich in illustrations of how factors specific to a single

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firm determined how they acted. Genentech funded the research that led to the bacterial production of somatostatin, a hormone without medical value or known market value. While this may have appeared not to be profit-making activity, this achievement demonstrated the technology's feasibility, and when published brought Genentech the scientific prestige it needed to sell research contracts for more commercial products, and to attract further funding. Thus, firms, and the scientists employed by them, responded to the prestige-seeking incentive structure of science.

The point is made that the search for knowledge is conducted in the dark (with little information as to what is likely to be found). Some knowledge-gathering is useful only because it produces the competence to know what knowledge to seek, or where the blind ends are. One example occurred when Genentech did human safety tests of its new genetically manufactured hormone in human volunteers, only to find that it produced negative reactions, even though it was analytically indistinguishable from the natural product. This showed a need for new analytical methods to detect the impurities that were producing the problem.

As always, various institutional details made a difference. A key incident in the history of human growth hormone occurred when in 1985 the natural version was found to have caused a very rare viral brain infection (Creutztfeldt-Jakob disease). The virus came from the human pituitaries used to prepare the drug. This led to a required withdrawal of this version from the U.S. market (and several other countries), leaving U.S. patients without a source of the drug. This put pressure on the government to approve the synthetic version. Approval was given just before the end of the six months that it was believed that most children on the drug could be deprived of it without damage to their adult stature (the major use for human growth hormone is to treat children who are deficient in it and would otherwise grow up as dwarfs). This was a very quick approval.

The withdrawal of the natural version left Genentech with a U.S. monopoly. The Swedish firm KabiVitrum, which was developing its own synthetic version, withdrew its version extracted from human pituitaries and waited for its synthetic version to be approved. Some firms (those without a synthetic version in development) kept marketing their natural version in countries where the regulatory authorities had not banned it. The result was the tragedy of

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unnecessary cases of Creutztfeldt-Jakob disease.

The story is told of how the original Genentech synthetic hormone differed in one amino acid from the natural version. Although this appeared not to affect the biological activity of the drug, Genentech felt this was a marketing problem and sought (and eventually found) a way to produce a version with the chemical structure identical to the natural product. This minor difference had considerable importance for the product's legal protection. The U.S. grants a seven-year monopoly for introducers of orphan drugs. These are ones that serve only a small market (the argument is that without this incentive drugs serving a small market may not be developed, or the expensive testing required for approval may not be profitable). Genentech was given such a monopoly for its human growth hormone with its one extra amino acid, or so it thought. However, Eli Lilly was given a monopoly for their synthetic version of human growth hormone. Theirs was identical to the natural version, and was approved by the FDA before the Genentech one without the extra amino acid was approved (but after approval of the version with the extra amino acid). The book suggests that this grant of a "monopoly" for two different versions of the same drug was done because the Food and Drug Administration wanted competition. It used the slight chemical difference as the legal excuse for treating each as a separate drug.

One of the most interesting chapters deals with the growth of the market for human growth hormone once the supply was expanded. Originally human growth hormone was only produced by extraction from human pituitary glands from cadavers. Then the emphasis was on rationing the rare and expensive substance, and being sure it was given only to those children who were clearly deficient in it. At the time, officials argued the supply from this source was adequate for the demonstrated need. However, once an alternative method of production had been developed and profit-seeking firms were seeking to expand sales, the market proved to be larger. There were apparently children who would be abnormally short, did not demonstrate a deficiency in human growth hormone, but whose growth was still accelerated when they were given it. Doctors began to prescribe it for such cases. Research began on other uses for the hormone and some medically unapproved uses appeared, such as body building. (In the U.S. once a drug is on the market, doctors are

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not prohibited from prescribing it for other-than-approved uses, although they risk malpractice suits if harm is done.) The market has proven to be much larger than predicted.

In spite of debates about the nature of evolutionary innovation, the existence of such effects appears well accepted, with the major dispute being how important they are. The evidence that they were important in the case of human growth hormone is persuasive, and although this is still only one product in one industry, it seems obvious to me that similar effects exist throughout the economy.

Edward M. Miller

Dysgenics: Genetic Deterioration in Modern Populations
Richard Lynn
Praeger, 1997
237pp., $59.95

Countless volumes have been written about the past evolution of the human species, yet hardly any attention has been paid to the crucial question, "Where are we evolving now?" Richard Lynn, of the University of Ulster in Northern Ireland, courageously addresses this question in his controversial book *Dysgenics: Genetic Deterioration in Modern Populations*. Professor Lynn presents compelling evidence that much of the world's population is deteriorating in its genetic potential for intelligence, health, and conscientiousness (or good character). The word for this is "dysgenics," the opposite of "eugenics."

The Bell Curve devoted one chapter to the question of where we are evolving with regard to IQ (Herrnstein and Murray, 1994). *Dysgenics* picks up where *The Bell Curve* left off. Professor Lynn surveys studies from around the world, and everywhere finds the less intelligent people having the most children. The only exception is sub-Saharan Africa where contraception is rarely used. He estimates that the genetic potential for intelligence has been declining in Europe and North America since the mid-1800s, with a total loss equivalent to some 5-8 IQ points, and a current loss of almost one IQ point each generation.

The beginning of the decline in genotypic intelligence coincided with the dissemination of information about contraception. For several centuries prior to 1800, married couples in Europe enjoyed

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natural fertility, essentially uninfluenced by efforts to limit it. Infant mortality was high, especially among the lower classes. Harsh though it may have been, natural selection operated to maintain a healthy population and to keep intelligence gradually increasing.

Then in the early 1800s, several books on contraception were published. These ideas naturally affected the reading classes disproportionately. Goodyear perfected the vulcanization of rubber, making it an ideal material for the mass production of condoms and diaphragms. By the middle of the century, it was becoming apparent that educated people were having fewer children than the uneducated. It was Darwin's cousin, Francis Galton, who coined the term "eugenics" and became its prime advocate:

> The chief result of these Inquiries has been to elicit the religious significance of the doctrine of evolution. It suggests an alteration in our mental attitude, and imposes a new moral duty. The new mental attitude is one of a greater sense of moral freedom, responsibility, and opportunity; the new duty . . . is an endeavor to further evolution, especially that of the human race.
>
> Man is gifted with pity and other kindly feelings; he has also the power of preventing many kinds of suffering. I conceive it to fall well within his province to replace Natural Selection by other processes that are more merciful and not less effective. This is precisely the aim of eugenics. (Blacker, 1952).

In the early decades of the 1900s, eugenics societies were being formed in Great Britain and the United States, and eugenics was advocated by leading thinkers along all points of the political spectrum. H.G. Wells summed up its common-sense appeal: "It seemed to me that to discourage the multiplication of people below a certain standard, and to encourage the multiplication of exceptionally superior people, was the only real and permanent way of mending the ills of the world. I think that still." Julian Huxley described eugenics as "of all outlets for altruism, that which is most comprehensive, and of longest range" (Van Court, 1982).

The idea of eugenics made sense because few doubted that heredity was important. Life was more closely tied to the land, the reproduction of plants and the reproduction of animals, and farmers knew from experience that plants and animals vary widely depending

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on their inborn qualities. Common sense dictated that human beings, like all the rest of nature's living organisms, were strongly influenced by heredity.

Professor Lynn's major thesis in *Dysgenics* is that scientific evidence has proven the eugenicists were absolutely right in their concerns about genetic deterioration, and that we, as a society, have made a serious mistake by discounting them. Twin studies and adoption studies have established beyond any doubt the important role of heredity in determining IQ. Identical twins separated at birth have quite similar IQs. When adopted children grow up, they resemble their biological parents more closely than their adoptive parents in IQ. Just as the eugenicists assumed, social mobility over centuries has produced a social class gradient for intelligence, and social class is determined partly by innate intelligence. One U.S. study found that in families with two or more brothers, the boys with higher IQs tended to move up the acvhievement ladder when they grew up, whereas those with lower IQs tended to move down. Finally, the evidence shows we are deteriorating genetically because the most intelligent people are having the fewest children.

A number of recent studies point to contraceptive practices as the key to understanding dysgenics today. People with low IQs, whether married or unmarried, are less likely to use any form of birth control. Among women using the same birth control methods, those with low IQs have much higher failure rates. After an unwanted pregnancy has occurred, low IQ couples are less likely to obtain abortions. Thus each factor selects against intelligence. One minor contribution to dysgenics is the fact that high IQ women often end up not having as many children as they would have liked to have had. By the time a baby is "convenient," it may be too late. However, the major reason for the decline in our genetic potential for intelligence is greater birth control failure on the part of low IQ women. In the United States, women of all IQ levels report that they would like, on average, about 2.3 children. But lower IQ women frequently have more children, often far more children, than they would ideally like to have. If all women had exactly the number of children they desired, there would be no dysgenics, and we would at least break even in our genetic potential for intelligence (Van Court, 1984).

The loss of a 5-8 IQ points may not be a tragedy for an individual, but when applied to a population over several generations,

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it has profound consequences. As readers of *The Bell Curve* may remember, small shifts in the average of a bell-shaped distribution produce large effects on the tails – in this case, the retarded and the gifted. For example, a decrease in the average IQ of just under 5 points doubles the number of retardates (IQ less than 70), and cuts in half the number of gifted (IQ over 130). Furthermore, Herrnstein and Murray found that when they moved the average IQ down statistically by just 3 points, from 100 to 97, all social problems were exacerbated: the number of women chronically dependent on welfare increased by 7%; illegitimacy increased by 8%; men confined to jail increased by 12%; and the number of permanent high school dropouts increased by nearly 15%.

One anomalous finding known as 'the Flynn effect' adds an element of mystery to this picture. James Flynn, a political scientist from New Zealand, has reported "massive gains" in IQ in the U.S. and elsewhere. When IQ tests are standardized, people consistently find earlier versions of the tests easier, and score higher on these than did the original test-takers. There is no consensus on whether this is due to actual increases in intelligence, or some sort of artifact. Certainly, enormous gains are difficult to reconcile with declining SAT scores. Some scholars dismiss 'the Flynn effect' on the grounds that if the population had actually gained 3 points per decade since 1932 as claimed, our ancestors would have been morons! Flynn himself is not unsympathetic to this view, and Christopher Brand makes a convincing case that people have merely become more savvy test-takers over the years (Brand, 1996). However, Lynn takes the view that the gains are real and are probably due to improved nutrition, thought to be the cause of comparable increases in stature. He likens the situation to poorer quality seeds given ever greater quantities of fertilizer. But even if this proves to be correct, there is likely to be a limit to how much more benefit can be derived from nutrition – if it has not been reached already.

Throughout human evolution, the genetically weak were less likely to pass on their genes to future generations than the genetically fit. However, as Lynn points out, due to modern charities and welfare schemes, plus the intervention of modern medical and surgical techniques, those with debilitating genetic diseases are more likely to survive into adulthood and transmit these defective genes to future generations. As a result, Lynn claims, the incidence of many

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genetically transmitted disorders is doubling or tripling each generation. Furthermore, he maintains, genetic disorders are likely to increase in the future due to increasing rates of mutation as a result of growing levels of radiation and the heavy use of mutation-causing chemicals in agriculture and industry. No one would deny sufferers treatment, but it is necessary to realize that as a result of such intervention the genetic potential for robust good health is declining. The only positive development, which Lynn himself does not touch upon in this book, is the increasing likelihood that at some time in the future eugenic measures will be developed which through "genetic surgery" will make it possible to effect a genotypic substitution of healthy for identified debilitating genes.

Conscientiousness, traditionally known as "good character," consists of honesty, a strong work ethic, and concern for others. Levin argues that IQ is positively correlated to a number of desirable traits (such as altruism, anti-authoritarian attitudes, hard work, thrift, and sacrifice), and when IQ declines, so do these traits. People with low IQs are far more likely to become criminals, so that if a society's genetic potential for intelligence declines its genetic potential for crime may increase. Moreover, some evidence suggests that despite lengthy sojourns in jail, criminals still manage to procreate at a faster rate than the societal average. Professor Lynn's research on London criminals found they had nearly twice as many offspring as noncriminals, and those figures are almost certainly underestimates. In demographic studies of fertility, the entire category of "underclass" males is frequently omitted because reliable data on their offspring simply cannot be obtained – their sexual behavior is often promiscuous, and their relationships transient. Since twin studies and adoption studies have established that there is a substantial genetic component to criminality, the higher fertility of criminals significantly increases the genetic potential for criminality in the population.

Richard Lynn offers no recommendations in *Dysgenics*, leaving that for his promised sequel, to be entitled *Eugenics*. However, he does provide a set of rejoinders to potential critics, and concludes:

> [W]e have considered the criticisms of the view that the genetic quality of modern populations is deteriorating. These are that there is no genetic determination of intelligence, conscientiousness, crime, educational attainment or socioeconomic status; that there can be an

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inverse association between intelligence and fertility without genetic deterioration occurring; that there are no genetic differences between the social classes; that there are no such things as bad genes; that the genes for genetic diseases should be preserved, especially in other people, because they make a positive contribution to creative achievement; and that all human types, including the mentally retarded, criminals and psychopaths, are equally valuable. All these arguments have been examined and found wanting. Only one verdict is possible con-cerning the critics of eugenics who have advanced these arguments, and that is that they have not taken the trouble to examine the research evidence. The eugenicists believed that modern populations were deteriorating genetically. The evidence set out in this book shows they were correct.

In retrospect, it seems inevitable that at some point the widespread knowledge and use of contraception would bring about dysgenic changes in the quality of the human population. Many people feel that it is wrong for society to attempt to influence human reproduction in any way; but it should be borne in mind that the modern dysgenic trend has come about as a result of society 'meddling' with the natural order of things by introducing contraception, and it is clear that some sort of 'compensatory meddling' will be required if human evolution is ever to return to its once healthy course. Current progress in genetic science is opening the way for just that.

Marian Van Court

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The Great Sex Divide

Glenn Wilson
Institute of Psychiatry, University of London

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A Study in Elite Illusion and Delusion

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